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How China is fighting back in the trade war

This Chinese steel pipe factory stopped selling directly to the US before President Trump imposed tariffs on steel imports. From Monday, US tariffs of 10% on $200bn (£152.9bn) worth of Chinese goods come into effect on almost 6,000 products, ranging from handbags to textiles. That means almost half of what China sells to the US is now subject to tariffs. But China is fighting back. It will retaliate by placing tariffs of 5% to 10% on $60bn worth of American goods. Some steel factories had originally set up a production line to service American customers, but even It turned out to be timely foresight, as now these products would have been among the $200bn worth of goods subject to US tariffs. In the face of the trade war, saying it would hurt the US more than China.

"The Chinese government will not just sit back," Chinese believe ."The US has many big enterprises with a lot of vested interests and investments in China. If the US begins to attack the Chinese, then it will have a big impact on American businesses operating here - not just against China."Whoever has the will win. But for now, I still believe China has the ability to keep things under control." That's a sentiment heard often during journalist visit to China.

When you listen to US President Donald Trump you'd be forgiven for thinking that the relationship between his country and China is one sided, with China winning and the US losing.But from China's point of view, the US has also reaped multiple rewards here, as Wang Haiyou, president of the Center for China and Globalisation. was keen to point out to a correspondent.

"Look at the last four decades since China and the US established diplomatic ties," he said to me in his office in Beijing."All the major US companies are in China. They all have a big operation in China. Some are even bigger than the US. You can't say that is not a success."Boeing sells more airplanes in China than anywhere else in the world. And Walmart produces more goods from China than any other company in the world."So if GM produces more cars in China than in the US - what's the company complaining about"

Can Trump really cut the US trade deficit?

President Trump has finally got a three-way agreement to change Nafta, the North America Free Trade Agreement.Canada and Mexico have agreed to reform the deal that originally came into force in 1994.He certainly got some specific provisions in the new trade agreement with Canada and Mexico that he will regard as important achievements. These are:

Cars will have to be 75% made in North America if they are to be transported cross borders duty-free - an increase from 62.5% and 70% of the steel and aluminium will have to be North American, and 40% of the labour content will have to be paid at $16 an hour or more, Those provisions will make it harder to source components or materials outside North America. China is the obvious, though not the only, country likely to be affected.

There will be better access for American farmers to Canada's highly protected dairy market.

Politically, this is an important achievement for President Trump. Renegotiating Nafta was a priority for him when he took office.He has described it as "the single worst trade deal ever approved in this country". The new one is "wonderful", he tweeted.With the mid-term Congressional elections only a few weeks away, it is clearly helpful for to have something specific to show to the voters.

But there is a wider objective behind his trade policy.The US has a trade deficit. It imports more than it exports and Mr Trump wants to change that. He wants to reduce the deficit with individual trade partners and with the rest of the world as a whole, or preferably eliminate these imbalances altogether.

That has been behind many of his trade initiatives: pulling out of the Trans-Pacific Partnership; new tariffs on aluminium and steel imports; and tariffs on a wide range of imports from China.It is impossible to judge the success or otherwise of this new agreement against the benchmark of whether it has changed the trade balance. It hasn't even had Congressional approval yet and will be several years before all the provisions come into effect. But the approach begs a fundamental question: are trade imbalances the result of trade policies" It seems obvious that they would be, but that is not the view of most economists.

A report from the Congressional Research Service puts it like this: "The Trump Administration's approach contrasts with the views of most economists, who argue that the overall US trade deficit stems from US macroeconomic policies that create a savings and investment imbalance in which domestic sources of capital are not sufficient to meet domestic capital demands." Or to put it another way, the counterpart to the trade deficit is that the US saves less than it invests. Yet another way of putting it would be a country that spends more than it produces will have a trade deficit.

President Trump has cut tax rates on incomes and company profits. He expects the move to strengthen economic growth so much that it will generate more tax revenue. Views are divided on how realistic that hope is, but many economists doubt that it will work. If he does end up increasing government borrowing, it would tend to boost the trade deficit. That is exactly the opposite of what he is trying to do with his assertive approach to trade policy.

Global economy in 2018.

Global economic growth on track to be the fastest since 2011.It has been projected that the global economy will grow by almost 4% in purchasing power parity (PPP) terms, its fastest since 2011, adding an extra $5 trillion to global output in current value terms. More importantly, the expected growth to be broad based and synchronized, rather than dependent on a few countries. The main engines of the global economy - the US, emerging Asia and the Eurozone, which comprised 60% of world GDP in 2017 - are expected to contribute almost 70% of economic growth in 2017 in PPP terms compared to their post-2000 average of around 60%.

The beginning of the end of easy money: Since the Federal Reserve started to gradually reduce the size of its balance sheet and raise rates, the question has been who will follow next. We expect the European Central Bank (ECB) to further reduce its monthly asset purchases in 2018. If Eurozone inflation rebounds faster than our baseline projection, 2018 could see the end of the ECB's asset purchase programme. In Japan, however, There will not be a dramatic shift in monetary policy. Generally, the monetary policy is to somewhat tighten in the G7, reflecting closing output gaps in some advanced economies and stable inflation expectations.

Global economy biggest, most energy hungry ever: The global economy is on course to consume almost 600 quadrillion British Thermal Units (BTUs) of energy-double its 1980 level and the highest level on record. India and China together will consume about 30% of global energy, which will be about six times more than what the African continent will consume. Reflecting the slow shift towards renewable, 10% of global energy consumption is expected to be in renewable with China consuming twice as much renewable energy as the US.

The U.S. is ranked most competitive economy for the first time in a decade.

The United States was named the world's most competitive economy by the World Economic Forum (WEF). In its Global Competitiveness Index, WEF - known for its annual economic forum in Davos, Switzerland - ranked the U.S. as the most competitive of 140 economies, the first time the nation has reached the top spot in a decade. Singapore and Germany ranked second and third respectively, with researchers finding the European economy was now less competitive than those in East Asia and the Pacific. The report mapped the competitiveness of global economies using 98 indicators including workforce diversity, press freedom, labor rights, and disruptive businesses.

The U.S. was given a competitiveness score of 85.6 out of 100, with its strengths including business dynamism, its labor market, and the financial system. However, the report noted that the U.S. economy was being held back by a weakening social fabric, worsening security, lack of IT adoption, and corruption. It also lagged behind most advanced economies in terms of health, with the country's life expectancy three years below the average of advanced economies.

Singapore, which closely followed the U.S., remained competitive thanks to policies that promoted openness, a key driver for its economic success. Meanwhile Germany, ranked third, scored highly on its macroeconomic stability, but like the U.S., was held back by slow IT adoption.

The U.K. was named the eighth most competitive economy, with WEF praising the quality of its research institutions and workforce diversity but giving the country a lower score for life expectancy and skills. China, ranked 28th, was the most competitive of the emerging markets, followed by Russia in 43rd place. No other emerging markets were ranked among the 50 most competitive economies.

WEF warned that the global economy was not ready for the Fourth Industrial Revolution - the rise of digital technologies - with 103 of the 140 economies on the index scoring lower than 50 percent for innovation capability. "Embracing the Fourth Industrial Revolution has become a defining factor for competitiveness," said Klaus Schwab, WEF's founder and executive chairman, in the report.

"I foresee a new global divide between countries who understand innovative transformations and those that don't. Only those economies that recognize the importance of the Fourth Industrial Revolution will be able to expand opportunities for their people." While it acknowledged the importance of technological innovation, WEF also urged governments to facilitate growth with "openness" policies such as low-tariff barriers and ease of hiring foreign labor. It also made a case for redistributive policies, such as investing in human capital through training schemes, and taxation aimed at tackling inequality.

Saadia Zahidi, the head of WEF's Center for the New Economy and Society, said all countries could become more prosperous if they pursued innovation that didn't come at the expense of "old" developmental issues.

"The Fourth Industrial Revolution can level the playing field for all economies," she said in the report. "But technology is not a silver bullet on its own. Countries must invest in people and institutions to deliver on the promise of technology."

The 10 most competitive economies of the world are, U.S., Singapore, Germany, Switzerland, Japan Netherlands, Hong Kong, U.K., Sweden and Denmark

The 10 least competitive economies of the world are respectively, Chad, Yemen, Haiti, Angola, Burundi, Congo, Sierra Leone, Mozambique, Liberia and Mauritania

$6 trillion of local government debt may be lurking under the surface in China: S&P

The actual level of off-balance-sheet Chinese local government debt could be several times more than what is publicly disclosed and range as high as 30 trillion yuan to 40 trillion yuan, or about $4.34 trillion to $5.78 trillion, S&P Global Ratings analysts say in a report."That's a debt iceberg with titanic credit risks," the analysts say, estimating that the ratio of all government debt to GDP was 60 percent last year.

As a result, S&P Global Ratings expects authorities will allow more defaults in local government

Unreported Chinese local government debt may amount to trillions of U.S. dollars, meaning the country's debt-to-GDP ratio has hit "alarming" levels, S&P Global Ratings said in a report released .

The analysts noted a large gap between reported investment in local infrastructure and funding, as permitted by central authorities. As a result, the actual level of off-balance sheet debt could be several times more than what is publicly disclosed and range as high as 30 trillion yuan to 40 trillion yuan, or about $4.34 trillion to $5.78 trillion, credit analysts Gloria Lu, Laura Li and their team said in the report."And that's a debt iceberg with titanic credit risks," they added, estimating that the ratio of all government debt to GDP was 60 percent last year.

To encourage economic growth in the region, local governments in China have invested heavily in infrastructure, often using financing structures known as "local government financing vehicles," or LGFVs. Details about their size or nature tend to be unclear, and the S&P analysts said much of the hidden debt is in those vehicles. Beijing has been trying to move financing away from off-balance sheet sources, but has had limited success so far. In the future, S&P Global Ratings expects authorities will allow more defaults in local government financing vehicles, the report said.

Oil spike and 'economic disaster' if US sanctions Saudi Arabia

"If the price of oil reaching $80 angered President Trump, no one should rule out the price jumping to $100, or $200, or even double that figure," Turki Aldakhil, the general manager of Saudi Arabia-based Al Arabiya television, said in an opinion piece published Sunday.The warning from Aldakhil comes amid heightened tensions between Saudi Arabia and the West.

"If U.S. sanctions are imposed on Saudi Arabia, we will be facing an economic disaster that would rock the entire world," Aldakhil wrote on Sunday.

"It would lead to Saudi Arabia's failure to commit to producing 7.5 million barrels. If the price of oil reaching $80 angered President Trump, no one should rule out the price jumping to $100, or $200, or even double that figure."International benchmark Brent crude traded at around $81.43 on 15th October morning, up around 1.2 percent, while U.S. West Texas Intermediate (WTI) stood at $72.12, slightly more than 1 percent higher.

Energy watchers are closely monitoring Brent, which has pulled back from recent multiyear highs but remains firmly established above $80 a barrel. So far this year, the price of oil has surged more than 25 percent, prompting some investors to bet that a return to triple-digits could be just around the corner.

Meanwhile, the U.S. is banking on Saudi Arabia to curtail soaring energy prices and help offset lost Iranian oil supply. But, in theory, an escalation of tensions in the Middle East could send prices sharply higher.

Europe: Solid growth with significant downside risks

The growth outlook for Europe remains robust, but downside risks are high. Strong private consumption growth is underpinned by dynamic labour market conditions and rising disposable income. Business investment and construction activity will also be supported by the European Central Bank’s (ECB) loose monetary policy stance. However, downside risks to the region’s outlook have increased. Amid rising trade tensions among major economies, various product groups have become the subject of new or changed tariff regimes. A tightening of trade restrictions poses a significant risk for the exportreliant European economies. As the United Kingdom of Great Britain and Northern Ireland prepares to leave the European Union (EU), the transition phase will entail significant uncertainty, particularly over future trade relations between the two parties. This increases the risk of businesses diverting investments away from the United Kingdom. The ECB faces the challenge of designing and communicating a normalization of its monetary policy stance, both in terms of its asset holdings and the policy rate, which could become an additional source of financial market volatility.

Most of the East European members of the EU maintained robust growth in the first half of 2018, albeit with some slowdown in the Czech Republic. Many countries registered record low unemployment and accelerating wage growth, in part explained by persistent labour shortages. Concerns about overheating, along with currency pressures linked to the stronger dollar and the announced tapering of the ECB's ultra-loose stance, have prompted a few central banks to tighten monetary policy.

South Asia: Economic outlook largely positive, but some countries face significant turbulence

The economic outlook for the South Asian region remains favourable, driven largely by India, which accounts for more than 70 per cent of regional GDP. The Indian economy is expected to continue expanding at a rapid pace of above 7.0 per cent in 2018 and 2019, amid vigorous private consumption, the recovery of gross fixed investment, and benefits from previous reforms. Public investment in infrastructure will remain a priority, while monetary policy is gradually tightening. However, some economies in the region are also facing increasing economic and financial difficulties. The economic outlook in the Islamic Republic of Iran is rapidly deteriorating, due to domestic weaknesses and the re-imposition of sanctions by the United States. The sanctions are expected to weaken the currency, exacerbate goods shortages and constrain productive capacity and export revenues. In addition, structural limitations, such as the prolonged period with restricted technology transfer, banking fragilities and financing restrictions, will continue to limit economic growth. Meanwhile, the economy of Pakistan is expanding at a fast pace, supported by large infrastructure initiatives under the China-Pakistan Economic Corridor. However, Pakistan is facing significant financial vulnerabilities, amid large twin fiscal and current account deficits, a visible decline in international reserves, and mounting currency pressures. Public debt is high, at close to 70 per cent of GDP, and the Government may seek assistance from the IMF, for the second time in the last five years. To promote more sustainable medium-term growth, policymakers in Pakistan must strike a balance between encouraging much-needed infrastructure investments to alleviate the chronic energy shortages and addressing large external imbalances.