Preface

The relationship between China and the United States is arguably the most important as well as the most critical bilateral relationship in the world today. The U.S. is the largest economy and the mightiest military power in the world. China is the second largest economy, the most populous nation and a significant nuclear power. If China and the U.S. work together as partners towards a common goal, many things are possible. However, if they confront each other constantly, a war may eventually ensue, and the resulting devastations are unthinkable. There are no winners in a nuclear war. It is therefore important for bilateral relations to be carefully managed by both countries, so that any unnecessary confrontation can be avoided.

In writing this book, I have three basic objectives. First, I want to show that while the real effects of the China-U.S. trade war in 2018 are not negligible, they are relatively manageable for China and even more so for the U.S. This is true even if the new U.S. tariffs eventually cover all U.S. imports from China. There is no need to panic.

Second, I want to show that behind the trade war are potential economic and technological competition between China and the U.S. and the rise of populist, isolationist, nationalist and protectionist sentiments around the world, in particular in the U.S. The competition between China and the U.S. cannot be avoided and is likely to become the "new normal". However, my analysis shows that while in the aggregate the Chinese real GDP is likely to surpass the U.S. real GDP sometime in the 2030s, on a per capita basis China will still remain far, far behind and will not reach parity with the U.S. until the very end of the 21st century. Moreover, in terms of the overall level of scientific and technological development and innovative capacity in general, China still has a long road ahead to catch up to the U.S. As to the rise of xenophobia in both countries, it is up to each government to demonstrate not only by words but also by deeds that it is not necessary for anyone to lose from international trade and direct investment—that there is enough overall gain for everyone to benefit.

Third, I want to show that China-U.S. economic collaboration and cooperation is a potentially positive-sum game—both China and the U.S. can win at the same time. Given the economic complementarities between the two economies, both can benefit significantly through mutual trade and direct and portfolio investment, and especially through better-coordinated economic collaboration and cooperation, taking advantage of and fully utilising each other's currently idle or underutilised resources. Balancing China-U.S. trade is actually possible. Enhancing mutual economic interdependence will help to build trust and reduce the potential for conflict in the future.

In 1997, at the height of the East Asian currency crisis, I wrote an essay titled "The Sky Isn't Falling!", explaining why the Chinese economy should be able to manage, and in particular, why the Renminbi should not be devalued at that time. Indeed, the sky did not fall, the Renminbi did not devalue, and the Chinese economy wound up with a real rate of growth of approximately 8 percent. Since then, I have written under the same title a couple of times, immediately after the collapse of Lehman Brothers in the U.S. in September 2008, and also after the bursting of the Chinese stock market bubble and the unexpected devaluation of the Renminbi in 2015. The Chinese economy is large and resilient. The Chinese government is agile, flexible and pragmatic. It has many instruments at its disposal. It will be able to manage the fallouts from the trade war. There is no need to panic. The sky is not falling!

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