Questions That Matter

Economic Nationalism | Will Biden Reset U.S.-China Relations?

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Even if President-elect Joe Biden adopts a more multilateral and predictable approach to China, we see the tariffs imposed by the Trump Administration remaining, and tensions persisting.

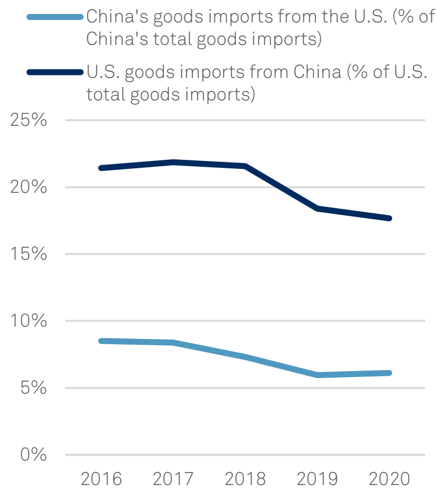
How this will shape 2021

More confrontation ahead: The U.S.-China strategic confrontation may ease as the new administration focuses initially on domestic issues, particularly COVID-19 and the economy. But we don't think tensions will fade away. Americans increasingly view China as a competitive threat, and without sweeping changes coming from Beijing, the deep-seated tensions between the countries look set to persist.

Growing pressure on economic and business conditions. The strained relationship between the world's two biggest economies, particularly regarding China's access to American technology and financial markets, could place additional pressure on economic and business conditions in both countries, and beyond.

Risk of significant economic and business disruption. Beyond the tariff dispute weighing on bilateral trade flows (see chart), U.S. policies and initiatives that target China and activities of Chinese companies could create business disruptions for either country's companies operating or exporting to the other country.

China Has Been Importing Relatively Less From the U.S. In Recent Years, And Vice Versa



Note: The 2020 data is through July. The proportion was calculated based on import value in USD. Sources: United Nations Comtrade Database, CEIC, General Administration of Customs of China.

What we think and why

Disputes over technology and communications could have far-reaching effects. U.S. sanctions have only targeted a handful of entities, most notably Huawei Technologies and ZTE Corp. However, second-order effects up the value chain could prove more material for players such as semiconductor foundries and parts suppliers. Also, longer-term implications on this sector and for China's economy could worsen if restrictions reach wider and squeeze harder.

Financial market access is a particular vulnerability. Any major restrictions could have extensive implications for the operations of global financial institutions and entities that rely on trade and U.S. dollar funding. Although workarounds may be feasible, the effect could be amplified by economic size and interconnectedness. China is likely to respond with active industry policy and financial support.

China's strategic response will shape global industrial trends. Some industries are likely to suffer significant demand shocks as China continues to shift from investment to consumption, and from fossil fuels to renewable energy sources. Others will face supply shocks as Chinese companies move further into technology and out of basic manufacturing.

The U.S.-China strategic confrontation may ease somewhat in the first half of the year as the new administration focuses on more immediate domestic issues, including COVID-19 and its economic impact

What could go wrong

Other areas of dispute could also flare up. Cross-border investment is slowing or more focused on "reshoring". This could have a lasting effect on trade and corporate activity between the two countries and elsewhere. Retaliation from China has been largely limited to tariffs and diplomacy, although non-tariff barriers in its digital economy have risen. We don't expect it to escalate or to heavily dent current American business operations unless the U.S. launches more targeted initiatives.

U.S. firms could lose ground in the technology battle. China needs foreign technology to catch up with its more advanced peers; outside players still provide key inputs through trade and investment. This makes any U.S. moves to slow technology transfer—should China not do more to protect intellectual property and ease access for foreign firms—of even greater importance.

This report is an extract from the S&P Global Ratings report, “Global Credit Outlook 2021: Back On Track?”

This report does not constitute a rating action

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

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