

World Watch

By Krishen Rangasamy

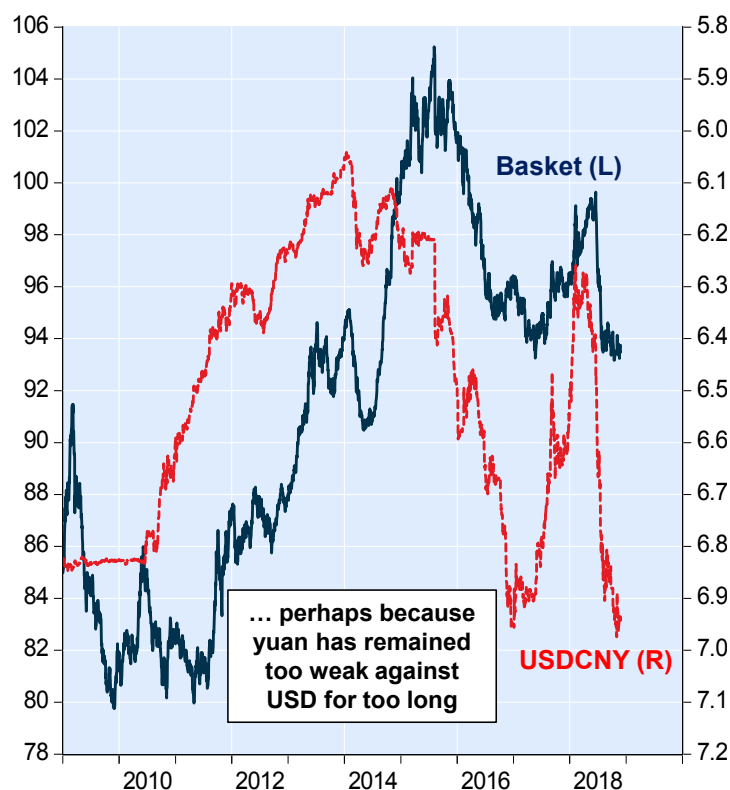
Investors worldwide will be hoping this week's G20 summit does not have the same denouement as last summer's disastrous G7 meeting. Protectionism threatens to hurt trade flows and by extension world GDP growth, and hence needs to be contained if not eradicated. But how do you convince the main proponent of trade barriers, the U.S., to reconsider its stance? By showing a willingness to negotiate and offer concessions, the way Canada and Mexico did this year to get the USMCA trade deal. Likewise, China should show its willingness to negotiate through meaningful gestures. And here we're not kidding ourselves in expecting Beijing to immediately open up its markets and curtail manoeuvres that continue to hurt its image worldwide including forced technology transfer, industrial espionage and military expansion in the South China Sea. Instead, we're thinking about an easier first step, such as a change in currency policy to allow for a stronger yuan versus USD, which could be effective in negotiations given the White House's sensitivity to the widening U.S. trade deficit. Recall that China accounts for roughly half of America's US\$600 bn annual trade deficit. As today's *Hot Charts* show, on a 12-month cumulative basis China's trade surplus with the U.S. climbed to a record US\$312 bn in October but fell to a multi-year low of just US\$34 bn with the rest of the world. Such diverging trends reflect Beijing's currency policy because since 2009 the yuan has appreciated against a basket of 24 currencies but lost ground against the USD.

World: Can China do more to avoid a trade war?

China's trade balance, 12-month cumulative



Yuan versus basket of 24 currencies and versus USD



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