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Q&A-Sino-U.S. relations to continue deteriorating under Biden; Taiwan "flashpoint" in tech war: Alastair Newton, Alavan Business Advisory



The relationship between China and the United States will continue to deteriorate under U.S. President Joe Biden, with Taiwan being the "world's most dangerous flashpoint" due to its pivotal role in the tech war going on between the two countries, **Alastair Newton, Co-founder and director at Alavan Business Advisory**, told the Reuters Global Markets Forum on Thursday, February 4.

"I am not forecasting a war there in the near- to medium-term, but the risk of a miscalculation is non-negligible," Newton said.

Newton said he expected "real battle" between China and the U.S. to be over chip technology, an area which will drive Chinese manufacturing in the future, and where it is trying hard to catch up to Taiwan.

Following are edited excerpts from the conversation:

Q: How do you see the dynamics of global trade changing with RCEP, BRI and other bilateral agreements that have come into effect during Donald Trump's presidency, and now with President Joe Biden at the helm?

A: There are many big question marks about trade. Probably the first and most important is one is the future of the WTO (World Trade Organization). Team Trump set about deliberately trying to undermine the WTO. We will certainly see a different approach from the Biden administration which will look to work with like-minded members to: a) agree a new head, b) re-set the dispute settlement mechanism, and c) use the Organisation's authority to address at least some of China's trade malfeasance. However, wholesale reform will be difficult.

Second question, the Trump tariffs. Biden is very unlikely to roll back those against China. At least initially. If nothing else, they are a useful bargaining chip. But we are also unlikely to see new tariffs on China, even though these would likely be popular with progressives. Ideally, Biden would probably like to take America back into the TPP (Trans-Pacific Partnership). But I think that will be difficult politically at home. As for the RCEP, it is an important step forward. But in terms of liberalization it is a small one only. Nevertheless, it is important to keep firmly in mind that these measures are at least as much political as they are economic and the RCEP is a boost for China regionally -- just as the EU-China BIT (bilateral investment treaty) is a boost for Beijing globally.

Q: Does the signing of trade agreements such as the RCEP in APAC, China's Comprehensive Agreement on Investment (CAI) with Europe, etc. put more pressure on the Biden administration to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)?

A: Getting any trade agreement approved in the U.S. is far from easy - Congress being a major hurdle. I think that insofar as Biden will look to do more in this field, he is likely to concentrate first on the Transatlantic Agreement consistent with his desire to undo at least some of the damage Trump has inflicted on the Western alliance. But this is not straightforward for either party.

Q: Would that help the U.S. counter China's ever-growing influence with the RCEP and Belt and Road Initiative (BRI) in the ASEAN region?

A: Re-joining CPTPP would help counter China's influence for sure. But I think the issue of BRI is an interesting one. We have seen over the past months a major slowing down of Chinese investment - both cash and political capital - in BRI. Clearly the priority is increasingly domestic in the era of COVID-19, and with the U.S. now gearing up increasingly, including under Trump, to push back hard on China's hegemonic aspirations. Also, China is at risk of being the focal point of a great deal of emerging market debt default through its previous BRI-related lending.

Q: Biden has not spoken with President Xi Jinping until now. Do you see that as a sign that Sino-U.S. relations could worsen from here?

A: I do indeed expect China-U.S. relations to continue to deteriorate even though Biden will look to work with Xi on a number of issues ranging from climate change to Iran. Taiwan - with all due respect to the India/China border - is the world's most dangerous flashpoint today. I am not forecasting a war there in the near- to medium-term but the risk of a miscalculation is non-negligible, and Taiwan also goes to the heart of another major China-U.S. battleground, i.e. the tech war.

Q: Where do you see the tech war going? More tariffs, protectionism and tit-for-tat?

A: Basically, my tech expert colleague Richard Windsor and I stand by the view we have been promulgating for over 18 months now that the world is going to split into two camps; one using Chinese systems and standards, the other using western. For countries in Asia, this presents a quandary which is probably only going to be resolved by operating both systems in parallel. But the real battle is going to be over chip technology - which is why Taiwan is strategically so important. One other dynamic of the tech war is that it does account in part for why Biden is moving quickly on reversing Trump's immigration blockers. He needs to free up room for Indian expertise to be brought into the U.S. Good news for India-U.S. relations, which are likely to improve, but which will not be entirely straightforward by any means.

Q: What chances do you give of China losing, or diluting, its manufacturing edge to countries like India, Vietnam etc.?

A: In terms of labour costs, China has already lost out. And many companies operating cross-border are diversifying their geographical footprint. But it's not just about politics. Robotics, 3D printing and the desirability of closeness to customers are all factors which will also likely drive some repatriation of manufacturing. Nevertheless, China is a huge market in its own right, and many manufacturers will feel that they cannot afford not to be there still. Look also at how Wall Street has piled into China in the past year, thanks to some financial market liberalization there -- for which Trump deserves some credit. And China, although lagging by maybe 10 years currently, is determined to catch up on chip technology, which will also drive its manufacturing sectors.

Q: What role do you see China playing in global trade in the years ahead, and what are your views on the imbalanced growth of trade, considering China has shown a faster recovery from the pandemic than much of the developed world?

A: Xi Jinping is not going to move away from a high degree of state control of the economy. So, China is going to continue to run into problems in the global marketplace. As for trade imbalances, I don't think these are going to change any time soon. Then again, I am not as obsessed with these as the economically illiterate ex- U.S. president is! The solution to U.S. trade deficits lies largely at home, in punishing exporters to the U.S. As for COVID-19, China likes to hold up its recovery, so far, as 'proof' of the 'superiority' of its governance system. But Taiwan, South Korea and New Zealand, all democracies, have also done well. And we are still a long way from really containing COVID-19.

Q: What geopolitical implications do you see for China, ASEAN countries and the U.S. from the RCEP? Will China have a tighter control over supply chains in the region, given how low-cost production has been moving out?

A: There is a long way to go still with RCEP. I don't see it having any major economic or trade impact for some time to come, if at all. Optically/politically is where it's real importance today lies.

Q: Any parting thoughts for us?

A: Myanmar: the investment community seems to be very relaxed. This is an interesting test for Biden and his agenda. I think there is a real possibility that investors may get caught out by an unexpectedly tough U.S. response in liaison with close allies. The tricky one in some respects is Singapore, which is home to 34% of foreign investment in Myanmar. But I reckon we'll see a real effort by the Biden Administration to get Singapore on board. So, if you have exposure to Myanmar and/or foreign companies operating there do watch this one very closely please.

Q: What do you classify as a 'tough' response?

A: Step by step sanctions up to and including hitting any companies doing business with the junta and its associated in USD with big fines for 'sanctions busting'. Think Iran.

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