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## **The fragile web of foreign trade**

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### **The recession makes globalisation more necessary, but more precarious**

A FEW years ago, Niall Ferguson and Moritz Schularick, two economic historians, coined the term “Chimerica” to describe the symbiosis between the world’s two great powers. Chinese people save, they observed, allowing Americans to borrow and spend more than they earn. American consumers buy gizmos made in China, keeping Chinese workers in jobs. Both countries benefit.

But the financial crisis has caused many people to rethink this comfortable arrangement. Protectionists have long blamed Chinese imports for destroying American jobs. A new gripe is that, by lending America so much money, China helped inflate the asset bubble that has now burst so painfully. Although no one forced Americans to borrow so much, nor to gamble the money on property, the crisis has fuelled nativist anger. Lawmakers added “Buy American” clauses to this year’s stimulus package, and there are still absurdly tight limits on the number of skilled foreigners who can work in America.

The American and Chinese economies are so entwined, however, that any attempt to separate them will end in calamity. If China were suddenly to stop buying US Treasury bills, it would plunge America into a fiscal crisis. It could also spark a collapse in the dollar and thereby wipe out a big chunk of China’s foreign-currency reserves, so both sides have an interest in preventing it from happening. This mutual dependence applies to businesses, too. Chinese manufacturers need America’s huge market. American firms, to stay competitive, need to buy things from China.

It is increasingly hard to tell if some companies are American or Chinese, says Jonathan Woetzel, a China specialist at McKinsey. Consider Cheung Yan, who was until recently China’s richest person. With her husband, she set up a firm in California to gather American waste paper and ship it to China to be recycled. Later, she set up paper factories in China to do the recycling. Some of the waste paper is turned into boxes to hold Chinese-made electronic goods that are then shipped to America. Is their business Chinese or American? And does it matter?

The recession has severely disrupted trade between America and more or less everywhere else (see chart 5). China’s exports to the United States, which had more than trebled between 2002 and 2008, collapsed by more than half between September 2008 and February 2009. The slump in American consumer spending may be causing as much pain for some Chinese exporters as it is for American businesses. But hard times are forcing American firms to look harder for savings, and many are finding these in China.

Ever more industries are finding that their supply chains can run through China, says Jimmy Hexter, another

McKinseyite and co-author, with Mr Woetzel, of "Operation China". Wal-Mart's chief procurement officer lives in Shenzhen. For cheap retailers, not buying goods from China would be suicidal. But as Chinese firms grow more sophisticated, they are selling fancier stuff. China's exports to America of machinery and electrical goods, for example, grew at twice the pace of its textiles exports between 1993 and 2008.

For American firms setting up in China, the chief attraction these days is not its cheap labour but its increasingly affluent consumers. In a recent survey of American firms in China by the American Chamber of Commerce there, 63% said they were there to sell to locals, whereas only 9% said they were there to sell things back to America. Procter & Gamble is so well established that many Chinese think its products (such as green-tea-flavoured Crest toothpaste) are local brands. GM is doing well in China, unlike at home. American firms are jostling to help China build smart infrastructure and tackle pollution.

American business is as deeply entangled with other parts of the world, too. Supply chains criss-cross oceans, letting firms buy whatever they want from whoever makes it most efficiently. Despite Barack Obama's claim that green jobs cannot be outsourced, a study by Brown-Wilson Group, a research firm, finds that they can. Granted, the man who fixes a solar panel to a roof in Ohio has to be in Ohio. But the panel itself can be made in China, and the software for the smart grid that will one day make the solar panel economic can be written in India. Without free trade, saving the planet will cost a lot more.



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