

Macro Roundup Article

Headline: [Pettis On Sino-American Decoupling](#)

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Tweet: .@michaelxpettis notes that decoupling from China will be hard because, with subsidies in “energy, transportation, logistical and communications infrastructure, they can effectively produce more cheaply in China than elsewhere.”^[OBJ]

Summary: Decoupling won't be easy because there is a reason China-based manufacturers are so "competitive" internationally. Chinese subsidies to manufacturers – not just direct but, especially, indirect – are far greater than those of any other country. The extent of these subsidies explains China's huge domestic imbalances and the persistent weakness in its domestic demand. Manufacturers are in China because as long as China subsidizes them directly and indirectly, with constant (and expensive) upgrades to energy, transportation, logistical and communications infrastructure, they can effectively produce more cheaply in China than elsewhere. Even rising Chinese wages won't matter because as long as the total income of Chinese workers – and households more generally – doesn't exceed, or even lags, the growth in total production, China will always be a relatively "low wage" economy.

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