China Shock 2.0: Introducing our new series on the global economy

__Neil Shearing__ is the Group Chief Economist at Capital Economics. He has overall responsibility for managing our global team of 70+ economists and leading our research, as well as developing the firm's products and its relationship with clients. Neil is a leading voice within the investment community and his views are regularly sought by global media outlets, including the Financial Times, the Wall Street Journal and Bloomberg. He is also an associate fellow at Chatham House.

China's dominance of large swathes of global manufacturing will be one of the defining forces shaping the world economy over the coming decade. Over the next few weeks, Capital Economics will publish a new series of analysis examining what is being called 'China Shock 2.0', showing who stands to gain or lose, and how policymakers might respond.

China's recent export surge has revived memories of the original 'China Shock'. In the early 2000s, China's emergence as a manufacturing powerhouse reshaped global trade and production. It helped lift hundreds of millions of Chinese out of poverty and underpinned a "Goldilocks" period of strong global growth and low inflation. But it also contributed to substantial manufacturing job losses in advanced economies, particularly the US. The resulting economic dislocation is widely seen as having helped fuel the wave of political populism that has swept across the West over the past decade.

The world is now facing a new China Shock. Like the first, it is rooted in China's export dominance and is also generating some benefits for the rest of the world. China remains a source of global disinflation and its move up the value chain has helped lower the price of increasingly sophisticated technologies. But China is no longer simply the world's low-cost factory. It is increasingly competing in industries that advanced economies view as critical to their future growth, prosperity and national security. And China is now both a strategic rival and economic peer of the US, adding a geopolitical dimension that was largely absent during the first shock.

This creates three major challenges for the rest of the world. First, China's growing dominance threatens countries that rely heavily on manufacturing for employment and economic growth. Second, growing dependence on Chinese supply chains raises concerns about economic resilience and strategic vulnerability. Third, China's huge and persistent external surplus is contributing to a widening of global trade imbalances that have a habit of foreshadowing economic and financial crises.

Yet China Shock 2.0 is not simply a story about trade. China's growing influence is also being felt through investment flows, technology transfer, commodity markets and the global transition to clean energy. Understanding these developments is becoming increasingly important for investors, businesses and policymakers.

In our upcoming series of analysis – which will be gathered on this dedicated page – we will examine some of the critical issues surrounding this shift in the global economic environment, including:

· Whether China's investment-heavy growth model is sustainable;

· How China's export gains are reshaping global manufacturing;

· How China is deploying its growing stock of overseas assets;

· Which economies are most exposed, and which may benefit;

· The implications for supply chains and the green transition;

· The role of exchange rates and whether coordinated policy action is possible; and

· How growing global imbalances might ultimately be resolved.

Neil Shearing, Group Chief Economist

Taken together, the series is designed to give clients the breadth and depth of analysis needed to understand these forces that are reshaping the global economy, identify where the costs and benefits are likely to fall, and anticipate the implications for markets, for businesses and for policy.

We'll be presenting key findings of this work in a series of in-person briefings in London, Hong Kong and Singapore in October. See our events page to register for a session near you, or speak to your Customer Experience Manager for more details.

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