

# CHINA'S STANCE ON GLOBALIZATION: THE HERETIC PREACHING TO THE CHOIR, OR THE PRELUDE TO A CONVERSION?

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It would be a euphemism to say that 2016 was an eventful year globally, with Brexit in the UK in June and the election of Donald Trump as US President in November being just two peaks of a long rollercoaster ride. 2017 started very promisingly, with the surreal – almost hallucinatory – scene of Chairman Xi making a sensational defense of capitalism and free trade from the podium of the World Economic Forum in Davos. A few days later, Premier Li Keqiang went on to write an article for Bloomberg Businessweek that confirmed China's commitment to economic openness and free trade.

In a world frightened by the risk of a global anti-historical protectionist wave triggered by the US, Xi's and (to a lesser extent) Li's stances have been received by many in the West with a certain sense of delight, almost relief. To these very same

people in the West, China, in contrast with the past, is increasingly being associated with positive concepts: the “next superpower”, an endless source of foreign investment, and the source of rising brands such as Alibaba, Lenovo, Wanda and Xiaomi. A country that, despite the many Cassandras and an inevitable and smooth slowdown, continues after 30 years to see steady growth in GDP, business, investments and trade growth with Chinese characteristics.

It is precisely in these “characteristics” that one finds the key to understanding the direction in which the United States and possibly Europe, in a not-too-distant future, may decide to steer their trade and commercial policies, turning their announcements into real action. During his presidential campaign and since his inauguration, US president Trump has promised to implement protectionist trade policy measures such as import duties on goods coming from certain countries (China being its prime target, together with

This year started with Xi Jinping calling for the defense of capitalism and free trade at the 2017 World Economic Forum; is China about to strip the United States of its trappings of global leadership?

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Mexico), sanctions on American companies delocalizing their production, a massive infrastructure-building programme and various forms of support to companies creating jobs domestically. To Western observers these may sound like old-fashioned ideas, but to pretty much anyone who has been doing business with China these policies are extremely familiar: in fact, they have been the core of China's trade policy for the past 30 years. That is why, leaving aside the sensationalism of the mainstream media and looking closely at Xi's full speech in Davos, there was nothing fundamentally new about it. In one of its core and most quoted passages, for example, he stated that China

*[...] will expand market access for foreign investors, build high-standard pilot free trade zones, strengthen protection of property rights, and level the playing field to make China's market more transparent and better regulated.*

Statements of this sort are not new and could be attributed to virtually any of Xi's predecessors in the past 25 years. It could even be argued that the fact that the need still exists to make such announcements could be considered *per se* as evidence of a stagnant situation, as discussed in previous T.notes of this series. Many reputable and hands-on China-watchers see the situation in China as not only stagnating but actually regressing. This view was well encompassed in an article by James Fallows on the cover of *The Atlantic*, entitled "China's Great Leap Backward". In describing the situation, Fallows starts with a simple and bold remark:

*Despite the ups and downs, the China of 2010 was undeniably richer and freer than the China of 2005, which was richer and freer than the China of 2000, and so on. But that's no longer true.*

Examples supporting this thesis of a deteriorating situation, particularly in the world of business, are not difficult to find: in early 2016, China's State Administration of Press, Publication, Radio, Film and Television decided to shut down Apple's iTunes Movies and iBooks, not a surprise for a country with a staggering list of legally banned websites. Later in 2016, Chinese authorities decided to go ahead with the adoption of a highly controversial Cybersecurity Law, despite vocal protests of the international business community. These moves and other recent events served as final proof that for the current leadership the economy, at both the macro and micro levels, must be subjugated to political goals, economic development and job creation *in primis*. It is precisely economic development and job creation that are at the centre of Trump's plan to "make America great again".

Seen from this perspective, the protectionist stance taken by the new US administration could also be interpreted as a response to China's behaviour – as a political declination of the popular phrase "if you can't beat them, join them": frustrated by the regressive political trend mentioned above and the (alleged) failure to bring China's standards up to the level of the commitments undertaken on WTO admission, the US may respond by bringing their standards down. A similar dynamic is also taking shape in the European Union, where key countries – after having progressively raised their voices against the lack of reciprocity and the obstacles to market access in China and denied the market economy status in 2016 – recently moved further and officially requested the European Commission to create a legal basis for blocking Chinese investments in hi-tech industries.

A major shift seems to be ongoing at the moment: with China being the indisputable winner under the *status quo* and the United States and Europe being unable to change things and bring China up to their standards of economic freedom and openness in business, the United States and Europe are now considering a major change in their strategies that could include bringing their standards down to

China's level. In his first address to the Congress, President Trump indicated that this is the direction he may want the United States to take with a quote which may become the credo of the new administration "I believe strongly in free trade, but it also

has to be fair trade. It's been a long time since we had fair trade". Under these conditions, China may no longer be able to continue to play the same game of talking the talk, but will have to show concrete signs of goodwill, opening up its economy and intending to play by the rules. The coming months will be key to understanding whether this will be the case, and whether Xi's speech at Davos was just another show of old rhetoric by a heretic preaching to the choir, or the announcement of a conversion. Businesses and investors, both in China and abroad, are watching these events with profound interest, and are already using different forms of hedging to protect themselves from some of the possible scenarios. This will be the subject of some of the T.notes coming up in this CMBP series.

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