



Why Xi fails to convince China's main trading partners

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For almost two years, Xi Jinping has painted China as a champion of free trade, open economy and globalization. But it seems not many countries buy into such rhetoric. By contrast, for all his confrontational approach, Donald Trump has successfully reached – and is likely to conclude – a number of important trade deals.

In a keynote speech at the World Economic Forum (WEF) in January 2017, the first such by a Chinese leader, President Xi denounced protectionism, likening it to “locking oneself in a dark room” that blocks “light and air.”

With such a view, he promised that “China will keep its door wide open ... 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.”

In all other key conventions, including at the Asia-Pacific Cooperation (APEC) Summit in Danang, Vietnam, last November and the Boao Forum for Asia – often dubbed the Asian Davos, as it is modeled after the WEF held annually in Davos, Switzerland – in April this year, the Chinese supremo made the same – or more of the same – promises.

A key word that frequently appears in the Chinese president’s speeches is “openness,” which, according to him, “leads to progress while seclusion leaves one behind.”

Although he mentioned neither Trump nor the US in those pronouncements, Xi pointedly criticized the US president’s “America first” protectionist policies while portraying his country as a, if not the, new flag-bearer of free trade, open economy and globalization.

In fact, since his WEF address, which came just three days before Trump’s swearing-in as America’s 45th president, Xi and China’s officials and state-run media have constantly and vehemently made such a distinction between the world’s two largest economies.

For instance, last week, the Chinese government published a white paper on China’s current trade friction with the US. In it, Beijing accused the Trump administration of trumpeting

“America First,” “brazenly [preaching] unilateralism, protectionism and economic hegemony” and practicing “trade bullyism.”

In contrast, it depicted China as a responsible, benign, altruistic, law-abiding and progressive country that is committed to “protecting property rights and intellectual-property rights” as well as “the lawful rights and interests of foreign businesses in China,” “deepening reform and widening opening-up” and “building a community with a shared future for mankind.”

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In some respects, some of China’s accusations of Trump are legitimate. Trump is, without doubt, the most disruptive, unilateralist and protectionist American president in decades. Under him, the US has unilaterally and aggressively imposed tariffs not just on China but on many other countries, including America’s traditional allies. He has also canceled several key international agreements, such as the Trans-Pacific Partnership, that his predecessors had signed.

Yet most of China’s views of itself remain rhetorical at best and hypocritical at worst.

In its 2018 index of economic freedom, which covers 12 freedoms – from property rights to trade freedom – in 180 countries/territories, the conservative Heritage Foundation ranks China 110th and classifies it as “mostly unfree.”

According to the Washington-based think-tank, “there is little momentum for reform [in China], and state-owned enterprises still dominate the financial sector and many basic industries.”

With Xi’s “Socialism with Chinese Characteristics” as its “guiding ideology,” the Chinese “leadership appears to be stepping back from liberalization, increasing the likelihood of less openness to imports and investment.” In fact, it claims that Xi “has produced no significant reforms since taking power in 2013.”

By comparison, the US is put at the 18th position.

In its background paper, the Heritage Foundation also includes the 2018 Trade Freedom Scores, which rank the US 48th (out of 183 territories/countries).

Compared with the 2017 trade freedom scores, in which it was ranked 17th, America’s trade freedom has considerably decreased, and this isn’t astonishing given Trump’s protectionist stance.

But, tellingly, for all Xi’s rhetoric about free trade, China’s trade freedom remains the same, at 116th place.

That China lags far behind the US in terms of economic freedom is also confirmed by the 2018 annual report on economic freedom of the world recently co-published by the conservative Fraser Institute (Canada) and the libertarian Cato Institute (the US), which ranks the US sixth and China 108th. This index is based on five key areas, which include legal structure and security of property rights and freedom to trade internationally.

Actually, according to this index, though it has hugely benefited from free trade and economic globalization, China’s economic freedom has not improved in the past three decades. The

communist-ruled country was ranked 100th in 1990, 96th in 2000, 105th in 2005, 115th in 2010 and 113th in 2015.

An annual report on trade and investment barriers by the European Union, released in June, found that China had the second-highest number of barriers (25) after Russia (36).

What is notable is that last year, China created 10 new barriers, the highest number by any country. In comparison, according to this report, the US didn't set up any new trade and investment barriers in 2017. In this report (to the European Parliament and the European Council), the European Commission said: "China remains one of the most trade-restrictive partners for the EU. For years, EU companies have faced complex barriers, including joint venture requirements, market entry restrictions, obligation of technology transfer as well as unjustifiable technical regulations."

All of these point to the fact that, for all Trump's combative posturing and Xi's attractive rhetoric, the US remains far more open to trade and investment than China. This is undoubtedly a key reason that major countries and trading partners are still more willing to do deals with the US than with the Asian power.

Mexico and Canada have recently agreed to revamp the North American Free Trade Agreement (NAFTA) and reached a new trade deal with the US. South Korea has also signed a revised version of the free-trade pact with the US, known as KORUS. The EU, Japan and other countries are likely to agree trade deals with the US in the months to come.

In contrast, China has not reached – or is unlikely imminently to conclude – any major trade deals even though in his Davos speech, Xi promised that his country would "build high-standard pilot free-trade zones" and "form a global network of free trade arrangements."

In its last paragraph, China's document on "facts and China's position on China-US trade friction" quoted an apparently Chinese saying that reads: "A just cause enjoys abundant support while an unjust one finds little support." It then stated: "In a world of increasing uncertainty, instability and insecurity, China will remain true to its original aspiration, follow the trend of the times, shoulder its responsibility for justice, and pursue the greater good."

China will also "unswervingly safeguard the multilateral trading system, press forward with the reform of global governance, promote world peace, contribute to global development, uphold international order, and build a community with a shared future for mankind," the Chinese government's 20,000-word white paper stressed.

All of this sounds very noble on paper. But the reality, of course, is completely different. That's why, despite Trump's "America First" policy, major countries such as Japan and EU members still find America's "unjust cause" more attractive to China's "just cause."

If China doesn't truly practice what Xi Jinping, its "core leader," preaches, countries and businesses will, perhaps, become tired of its rhetoric and no longer believe in what it promises. In fact, there is already "promise fatigue" among foreign business groups because the Chinese leadership promises a lot but does very little.