

Interview with Dr. Xiaoping Li, Vice Dean of the Economics School of Zhongnan University of Economics and Law, Hunan Province, China

A Leading Chinese Thinker Discusses How Better Globalization Can Work

By *Japan SPOTLIGHT*

The United States and China have been mutually provocative in their trade policies. The US now considers China to be its most crucial competitor and industrial rival. Surging trade protectionism in the US in favor of its industries, in particular those exposed to the risk of job losses by Chinese products allegedly taking advantage of cheap labor and the lack of intellectual property rights' protection, has increased concerns among its trading partners. China seems determined to retaliate against US protectionist trade policies. But retaliation would result in shrinking trade between the two nations, and eventually global trade as well.

Our Editorial Committee member Ke Long, senior fellow of the Tokyo Foundation for Policy Research, shares this concern in light of the importance of the issue and of the role of China in the global economy. He introduced us to a distinguished Chinese thinker, Dr. Xiaoping Li, vice dean of the Economics School of Zhongnan University of Economics and Law in Hunan Province, an expert on international trade theory and policy making. Dr. Li kindly responded to our questions on this issue by e-mail as below. His answers were translated from Chinese into English by Ke Long.

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Where Is the International Trade Regime Heading?

JS: How do you see the current international trade regime? What is your view of the Trump administration's trade policy?

Li: Since the financial crisis, global economic development has been weak. The US and some other countries have adopted various forms of trade policies to protect their own interests. This rising idea of protectionist trade has seriously hampered the multilateral trading system which takes the World Trade Organization (WTO) as its framework. And instead it has adopted bilateral or regional trade based on various types of free trade agreements (FTAs) and regional trade agreements (RTAs). Until April 5, 2018, the WTO had already recorded 302 RTAs. Since the Doha Round of negotiations, due to the decline of American hegemony and the rise of economies such as China, emerging economies especially have begun to have the abilities and willingness to participate in negotiations, and it has been difficult for the Doha Round to be dominated only by the US. In order to contain China as the core leader of a multilateral trading system, the US has prevented China from rewriting the rules of international trade, exerted pressure on multilateral trade negotiations and turned



Dr. Xiaoping Li

to RTAs in an effort to fragment international trade.

During the administration of President Barack Obama, the US led a series of regional and bilateral trade agreements. The Trans-Pacific Partnership (TPP) is viewed by the West as an integrated, multi-layered model of free trade with a wide range of fields and high standards. After Donald Trump became president, he believed that multi-party talks would reduce the negotiating power of the US, and said that it would use bilateral, rather than multilateral, frameworks to obtain more favorable terms for US businesses and

workers. After he announced the US withdrawal from the TPP, it began to replace RTAs in the Asia-Pacific region through bilateral trade negotiations with countries such as Japan and Vietnam. Trump has gradually honored his campaign commitments on trade issues, including withdrawing from the TPP, nominating trade hawks as heads of trade departments, promoting the North American Free Trade Agreement (NAFTA) renegotiation, and strengthening trade enforcement, etc.

In the view of the Trump administration, the US has been suffering from unfair trade. It needs to implement trade policies based on the principle of "America First" to make up for the losses it has incurred during years of unfair trade. The trade policy pursued by the Trump

administration can be summed up in four points: the first one is getting rid of the shackles of multilateral trade rules, and to emphasize the US right to take unilateral actions in trade. The second is using measures such as anti-dumping and anti-monopoly investigations to crack down on so-called “unfair” trade frequently. The third is using tough measures to open foreign markets, and the fourth is revisiting trade agreements to focus on bilateral trade deals and expand their contents. The trade policy implemented by the Trump administration caters to the demands of domestic populism and could provide a lot of votes for Trump’s re-election. However, the fact is that trade policies which are based on protectionism will not bring about economic rejuvenation for the US. These protectionist policies will intensify international frictions, and even evolve into trade wars, which will drag on the world’s economic development.

JS: What do you think about the current performance of the WTO, which is expected to preserve the free trade regime?

Li: Since the establishment of the WTO in 1994, it has made outstanding contributions to the growth of the world economy and improvements of people’s living standards. It can be said that the role of the WTO is irreplaceable. However, there are two sides to the coin. While the WTO is playing an active role, it is currently in a predicament due to the impact of external factors and its own defects. Since the Doha Round’s negotiations in various countries have reached an impasse, countries have turned their attention to RTAs. With fewer participants in one RTA, there is a natural advantage in negotiating, reducing the cost of participating countries’ negotiations and accelerating the negotiation process for participating countries. But RTAs focus on the coordination of bilateral or regional interests. The lack of coordination with the WTO-led multilateral trading system weakens the function of the WTO and poses a threat to the development of the multilateral trading system.

In the context of the global economic downturn, new trade protectionism is mainly represented by green barriers, technical barriers, anti-dumping, anti-subsidy, intellectual property rights’ protection and other non-tariff barrier measures. The purpose is to evade the shackles of the multilateral trading system, protect domestic industry and employment, and maintain positions in the international division of labor and exchanges. This is also a serious challenge to the WTO which promotes the integration of world trade and safeguards free trade. The WTO should also reflect on this. How to change the traditional “club model” in the case of a growing number of developing country members, to improve on the existing

decision-making mechanism and to protect the actual equal members in participation and decision-making positions? How to adjust the overall thinking and focus on developing trade liberalization? How to improve the system so that regional trade integration can better serve global economic integration? Only by solving these problems will the WTO be able to better lead the countries of the world toward free trade.

JS: What about regional FTAs? Are they facing a crisis?

Li: As the biggest exception to the WTO’s most-favored-nation treatment principle, the development of RTAs is strong currently. Today we can no longer see the WTO as a rule and RTAs as exceptions. As stated, the WTO has already recorded 302 RTAs. Compared with the WTO, the scope of RTAs is greater. In addition to the traditional areas covered by the WTO, RTAs will involve more emerging fields such as labor, environment, tourism and scientific research. Secondly, the rights and obligations of member countries under RTAs will be more complicated. In order to ensure the effective operation of the WTO system, the WTO not only maintains the most-favored-nation treatment clause, but also stipulates that newly added members should accept the “package agreement”. However, for regional trade organizations it not only excludes the application of most-favored-nation treatment, but also the scope of rights and obligations of member states will be adjusted according to different trade areas. Finally, RTAs generally stipulate dispute settlement clauses, which allow for the diversification of international trade dispute settlement methods. However, RTAs are not a panacea. They are problems of fragmentation. As trade parties may be involved in signing multiple RTAs, there may be conflicts between the terms, disguisedly increasing the cost of using RTAs and reducing efficiency. At present, the WTO cannot deal with all these problems. As a good solution, RTAs must develop together with the WTO.

JS: What initiatives should Asia take for the stability of the international trade regime?

Li: Regional trade in Asia is full of vitality and has become the engine of international trade. Asian international trade data is so beautiful. The reason behind this is that Asia has several large economies, and Asian countries have openness to international trade and globalization. Because the existing WTO rules cannot meet all trade needs, Asian countries resolve disputes through active negotiations,

signing RTAs or bilateral trade agreements, and safeguarding the development of free trade. According to the Asian Economic Integration Report released by the Asian Development Bank, the number of new effective RTAs signed in Asia each year accounts for half of the world's total over the past 10 years. At the same time, there are two new trends in RTAs construction in Asia. Firstly, the participation of Asian countries is getting higher and higher. Secondly, the existing provisions have been continuously upgraded and deepened. These two trends show the Asian region's determination to maintain world free trade, unswervingly developing an open world economy, sharing opportunities and interests in openness, and achieving mutual benefits and win-win results. Openness brings progress, and closure leads to lagging behind. The Asian region should continue to explore how to build an RTA with greater coverage, more participating countries, and more fair rules. It will use its accumulated experience flexibly to continue to promote the multilateral trade system with the WTO as its core, and contribute to the development of global free trade.

JS: On Asia-wide FTAs, what do you think about the future of TPP11 and the RCEP? Do you think they are leading to an APEC FTA?

Li: Both TPP11 and the RCEP are facing challenges and opportunities. TPP11 is the result of the US withdrawing from the TPP, which retains more than 95% of the content. The content of TPP11 has three characteristics: full coverage, wide areas, and high standards. These three characteristics represent the trend of future RTA development. TPP11 is mainly based on developed countries. It embodies the concept of free trade in developed countries and their interests. Some provisions are beneficial to the interests of developed countries and harm the interests of developing countries. The threshold for participation is not in line with the overall economic development in Asia.

As for the RCEP, negotiation issues, such as competition policy, and economic and technical cooperation, have increased. Due to the restrictions on the content of FTAs among ASEAN member countries, the extent of its main content is hard to compare with TPP11. Moreover, the negotiation of the RCEP is a gradual process. Member states adopt flexible and differentiated policies to try to preserve all their interests and emphasize gradually increasing the level of liberalization of member states. At the same time, due to the huge differences in the economic development levels of the RCEP member states and the different interests of the various parties, the negative effects of geopolitics are obvious, and it is difficult for the

participating countries to reach an agreement.

TPP11 and the RCEP are more specific and deeper than APEC in terms of the agreement, and they are more forceful. APEC is a regional official economic forum. This "soft" relationship can easily bring together the communities of participating countries and help set aside disagreements and contradictions so as to achieve economic cooperation through equality and mutual benefit. But this "soft" relationship has also caused APEC to have no binding force on member states, and the results of these issues have not been well implemented. The future development of TPP11 and the RCEP will inevitably not be in the form of APEC. Member states must strictly follow the regulations, strictly implement the signed terms, and strictly fulfill their own commitments during negotiations. Against the background of economic globalization and regional economic integration, the establishment of the RCEP with East Asian characteristics will be an impetus for promoting economic integration in the Asia-Pacific region. TPP11's exploration of future full-coverage, wide-area, high-standard RTA construction, standardized management, and strong development momentum can also play a leading role in the development of Asian economies. Under the leadership of both, the development of Asian economic integration is expected to take on a new pattern.

The Background of Anti-Globalization

JS: What do you think about the background of increasing protectionism or nationalism or anti-globalization? Do you think income inequality lies behind it?

Li: Globalization is entering a period of depression. The rise of populist nationalism mainly in Europe and the US has promoted the tide of anti-globalization. Populism emphasizes the safeguarding of the interests of the middle and lower classes, and is often anti-elites, anti-authority, and anti-immigration. And nationalism generally supports the protection of national interests. The combination of populism and nationalism has formed a strong bottom-to-top trend or movement in nationalistic political thought. On the one hand, populist nationalism mobilizes the middle and lower classes against the establishment and the elites in resisting the excessive import of foreign culture, such as in immigration by Muslims. On the other hand, under the banner of safeguarding national interests, it is against free trade, capital exports and regional integration. It hopes that the sovereign state will promote nationalism and prevent the development of globalization by taking a series of "deglobalization"

measures such as trade protectionism, restricting foreign direct investment, rejecting immigrants, withdrawing from regional integration mechanisms and so on.

In the process of globalization in the past few decades, the countries “going global” have actively participated in the international division of labor. As a production plant, developing countries have increased their employment at home, while developed countries have obtained inexpensive products. It also promoted the development and prosperity of the world economy. However, since the economics crisis, the global economy has been sluggish and facing the challenge of shrinking demand. In Europe and the US, the living standard of many middle-class and blue-collar workers has decreased, and some of them have been facing unemployment. They feel they have been treated unfairly and believe it is the workers and settlers from the developing countries that have taken their jobs. They also find that the large enterprises and business elites of their country have gained a lot of wealth in the process of globalization, while they themselves have no guarantees in the crisis. They have been filled with discontent. Some political groups have seized the opportunity to publicize protectionist policies to attract the votes of these disaffected people. The spread of the idea of “deglobalization” and populist nationalism can easily cause trade conflict or even trade wars between countries, force the emergence of hegemony, and drag on the recovery and development of the world economy.

China-US Trade War?

JS: There is concern about the risk of a trade war between China and the US. What do you think about it? How can we avoid it?

Li: China and the US have become indispensable trading partners in each other’s development endeavors. After assuming power, the Trump administration adopted a series of protectionist policies in pursuing fair trade. Trump declared that the US was running a trade deficit with China and required China to take responsibility for it. But we should pay attention to the data released by the US. In the first place, America’s statistics of imports and exports in goods are calculated according to the balance of payments manual released by the IMF in 1948. And so far, the calculations have undergone no proper revision to adapt to the complexities of the global value chain. So it’s not an accurate reflection of the true trade relationship between China and the US, or the US and its other trading partners. Many of the products exported from China to the US are in the form of processing, in which China manufactured and assembled raw

materials or semi-finished products imported from a third country and exported them to the US. What China gains is only a small part of the global value chain. The value of goods exported from China to the US could be greatly exaggerated by America’s calculations. Next, according to America’s statistical approach, the value of goods shipped to Hong Kong from China’s mainland before being re-exported to the US are included in China’s exports to the US, while the value of goods exported to Hong Kong from the US before then being shipped to China’s mainland are part of America’s exports to Hong Kong. This statistical approach increased the trade deficit data again. At the same time, Trump’s calculations only emphasized America’s trade deficit with China in goods, but excluded the US surplus in service trade with China.

Despite opposition from other countries around the world, the US has decided to start anti-dumping and anti-subsidy investigations into China’s products. It will not only have an effect on China but also on all countries involved in the global value chain. China will not take this sitting down. On the one hand, it will seek the help of the WTO to deal with the contradictions between the two sides. On the other, it will impose equal sanctions on the US. Trade isn’t a zero-sum game. Sino-US trade frictions have an influence not only on the two countries. If a trade war is triggered between the two sides, all parties will be dragged into the abyss of a conflict where no one can emerge as a winner.

To avoid trade conflicts, both countries should do the following. First, a bilateral consultation mechanism should be established to coordinate the problems existing in bilateral economic and trade relations, either on a regular or ad hoc basis. Second, the two sides should actively make good use of the WTO dispute settlement mechanism to safeguard their own benefits. Third, they should further improve two-way openness to create a favorable environment and conditions for the expansion of bilateral economic and trade cooperation. What the US should do is regulate trade protectionism and unilateralism and play a leading role with China in the international economic order and global value chain. Fourth, China should continue efforts in market access, trade control, intellectual property protection, business environment and other concerns expressed by the US. The US should also consider easing the export restrictions on high-tech products to China and appropriately relaxing the regulations on direct investment by Chinese enterprises into the US without too many political factors.

JS: Could I have your view on the trade policy which you believe China should pursue, as an academic?

Li: As the world's largest trading nation, China should unswervingly put in practice a policy with trade liberalization at its core, and contribute to economic globalization. In addition, adhering to the rules of the world trade system and insisting on bilateral, multilateral and regional cooperation, China needs to enlarge the convergence of interests of all parties and accelerate implementation of a strategy of free trade zones based on the surrounding environments. It should also focus on the following: actively implementing an import promotion strategy; increasing technology, commodities and service imports; promoting economic structural optimization; implementing a strategy of rejuvenating trade through science and technology and a strategy of achieving success on the strength of quality; expanding exports of technology-intensive and capital-intensive mechanical products, high-tech and high added-value and environment-friendly products; improving international trade competitiveness; and carrying out the "One Belt, One Road" strategy to build an open economy system.

China-Japan-South Korea FTA

JS: What do you expect Japan or South Korea to do to achieve a stable and consolidated international trade regime? What do you think can be done to conclude a China-Japan-South Korea FTA?

Li: Being among the few developed Asian countries, Japan and South Korea should actively participate in Asian economic integration, and contribute to the consolidation and stability of international trade regimes. They should strive to become responsible economic powers, reject the idea of trade protectionism and be ardent supporters of global trade liberalization. In addition, they should use their own influence in the world community to actively promote multilateral trade negotiations, and engage in various agreements in favor of the development of regional and global economies. The leaders of Japan and South Korea ought to see decision-making on behalf of their countries, people and the world economy as the "capital" of their own political careers.

China, Japan and South Korea have a close geographical location and a similar cultural background. There is a huge market of 1.5 billion people and strong economic complementarities between the three nations. However, they have not signed an FTA to improve the regional economic outlook. To form a trilateral FTA, they should do the following. First, strengthen political mutual trust. Building good political relations between countries is an important foundation for the development of economic and trade cooperation. All three

nations should use their political wisdom to deal properly with sensitive historical issues. Second, encourage more non-governmental exchanges to improve official diplomatic relations, and advance cooperation between regions of the three countries by promoting trade through communication between local governments. Third, prevent the hampering of the construction of free trade areas from the US, and increase the voice of China-Japan-South Korea in the Asian area. And fourth, the FTA negotiations need to be accelerated. Under the principles of fairness and win-win, the interests of all parties need to be balanced.

JS: What do you think about the need to promote structural economic reform in order to promote the merits of free trade? Can the merits of free trade be fully maximized by domestic structural economic reform?

Li: At present, the world economy is in a state of continuous downturn, which is due to structural changes. The role of monetary policy and Keynesian theory is not obvious, and the world economy needs structural reform. All countries in the world should rationally allocate capital, labor, technology, management and other factors, create new supply, realize new demand and increase economic benefits. From the general global economic situation, developed countries should give more support to other countries, especially the developing ones, both in technology transfer and technology application, to help them with structural adjustment and transformation, rather than have them maintain low-end manufacturing. At the same time, the emerging economies cannot wait until they receive the help of developed countries. They should take the initiative to study new technologies and new products, especially high-end technology products, and move towards the upstream of the global value chain.

Only by persisting in structural reform can we fully enjoy the benefits of free trade. In the short run, economic structural reform may bring economic pain to a country and cause losses to some people. But in the long run, the improvement of the economic system, resources allocation efficiency, total factor productivity and product quality will make the country more competitive in international trade and bring profits through free trade. **JS**