

Interview with Prof. Yunling Zhang, Director of the Chinese Academy of Social Science

Restoring Multilateralism Key to Saving the Global Economy from the Coronavirus

By Japan SPOTLIGHT

Covid-19, the disease caused by the pneumonia-inducing coronavirus, is currently threatening millions of lives all over the world and it is likely this threat will continue through 2020 and even until sometime in 2021. Pandemics in the past have caused huge numbers of deaths. The only way to cope with them is to implement a “social distancing” policy until a medicine for a cure and a vaccine for immunity are created. This requires people to stay home as much as possible and stop meeting with each other. That itself results in a drastic decline in business and commercial activities. So we face a possibly tremendous decline in the global economy which can only be compared to the one experienced at the end of World War II. Without policies to address such an economic decline, we will see soaring unemployment and poverty all over the world. The social welfare that we have been striving to create in the postwar era would be gone.

What would be the key to achieving policies to prevent the world from a complete breakdown? We interviewed Prof. Yunling Zhang, director of the Chinese Academy of Social Science and distinguished professor of humanities at Shandong University, and a longtime friend of the Japan Economic Foundation. (Interviewed on March 18, 2020)

International Cooperation – Crisis or Restoration?

JS: Given the serious implications of the coronavirus for the global economy, should we take advantage of it to enhance international cooperation rather than allow a “my country first” attitude to spread? If this pandemic shows us anything, it is that we are living in an age of globalization. We need international cooperation to overcome the virus, and the risk of a global recession would seem to require a macroeconomic response through such cooperation.

Zhang: We all understand that multilateralism is facing great challenges. One of the challenges is US policy under President Donald Trump. This poses a significant challenge to multilateralism that could bring us back to unilateralism, or only bilateralism. This can be seen in the threat to quit the WTO and other US policies that do not consider the principles of the WTO. We all understand that the WTO needs reform, but because it is a collective organization rather than dominated by one country, reform needs to occur through consultations and cooperation. But I think the big threat to the global



Prof. Yunling Zhang

economy is confidence, because multilateralism based on open markets is the foundation of the global economy. We need reform, but we must get together to push and lay down the basic principles.

At the same time, I think that with the coronavirus, we all understand that no one country can isolate itself from this global change. Sanctions against China and other countries don't help the US economy at all. Especially in light of this risk of a global recession or crisis, we need to come together. We've seen Trump call the G-7 leaders, but there have been no concrete actions until now. The G-20 should play a key role, but they still failed to meet to take urgent action. We are now actually in a very dangerous situation, because the economy is facing a

global crisis but there has been no consultation or joint action to defend the global market. Because of the coronavirus, every country has now taken its own unilateral actions, which have almost closed down the markets. This is understandable, but at the same time we have to find a way to defend the global economy. Rigid controls and rules are necessary to stop the spread of the virus, but at the same time we need to take joint action to encourage the necessary flow of people, capital, and goods.

For instance, I have a friend at a company who told me that he has

received orders, but one month later when the goods are produced, nobody knows whether the customers or the transportation to bring the goods to market will be there. The global economy is uncertain and we don't know when it will end; we don't know how to defend supply chains or even consumption. When the virus first spread in China, factories shut down and could not produce, but now we see that people cannot commute and go to the market. We have very advanced electronic networks, but global, transnational market supply chains for production and consumption need trade ministers to work together over these networks. The challenge is to protect people on the one hand, while also protecting the global market. When something like the coronavirus occurs, we suddenly realize how at risk the global economy is.

JS: We think there is a common perception that the global economy is in crisis. Will this force countries to step up their efforts to use fiscal and monetary policy to stimulate the economy? Also, regarding the coronavirus itself, we need to find a remedy as quickly as possible. Do you think that a sense of emergency will increase consensus on the need to achieve international cooperation?

Zhang: I agree, but the global economy basically relies on individual economies. China has introduced many measures and policies to stimulate its economy, including new construction projects and support for factories as they reopen with preferential loans and reduced taxes. I believe the coronavirus will eventually pass, and then each country will take measures to re-stimulate its own economy. The problem is how to take collective action to expand global supply chains. That's a big challenge, because the important, crucial parts of individual economies rely on global chains. Each country will have a lot of companies facing a debt crisis. I think this will lead to urgent calls for the G-20 and WTO to do what each country has done, and establish new rules to stimulate the global economy. We have great challenges but almost no way to address them, and I think that is a great risk. Why not, for instance, call a G-20 ministers meeting immediately after the G-7, because the G-7 accounts for a major part of the global economy, but the G-20 countries are all now threatened by the coronavirus.

JS: Yes, the G-20 is a venue for discussing macro policy remedies, but what do you think would be a relevant venue for discussing the trade policy

regime? You mentioned the WTO, but what about the RCEP or CPTPP?

Zhang: My personal perspective now is that there will be no way to discuss actions at least during the first half of the year, or even beyond that. These are regional trade arrangements, but regional law is based on old arrangements, like China, Japan, and South Korea. They are three major countries that I think should take more cooperative action aside from the coronavirus effort. We have the CJK framework, so I recommend that our government calls an urgent summit meeting beginning with trade ministers. We need comprehensive cooperation, and that's probably the role of the region.

Assessing the China-US 1st Round Tentative Trade Agreement

JS: Going back to trade policy, do you think the China-US first round tentative trade agreement is a necessary political step toward structural economic reform on both sides?

Zhang: It's a first step and is positive and gives me hope for further negotiations to lead to a complete agreement on a bilateral basis. As I said, it's not a very good case, but we have to do it. On a bilateral basis it's very difficult, because it's all so political. But I think it's a positive sign that finally the two countries can make a first step toward progress. Trump just announced a new law that was passed on Chinese goods related to the coronavirus, but it's just a selfish "We need". You can't just take action when you need something: you need to have an open mind and open-oriented policy. We are all taking urgent action to contain the coronavirus, but this shows Trump's unilateral approach.

This virus has led me to think again about the globalization strategy. Maybe some companies are looking at their global supply chains and want to restructure them to make smaller chains rather than big international ones. We'll have to see about that, but this could lead to some positive rethinking about what kind of agreements between China and the United States we should have. I hope that they will be more open, because unlike US-Japan and US-South Korea, it's so political. This requires confidence, which lately has been worse because of the coronavirus with arguments back and forth about the source of the virus. Rationally, the tentative trade agreement may encourage the US side to think again about

these issues. Because of the crisis, however, the political factor may come to the forefront.

Personally, I hope that they will move further to reach a comprehensive agreement, but not just based on these bilateral ones. I don't favor this bilateral approach that just divides the global market with different rules, and is based on strong pressure. This may be a move back to bilateral rather than multilateral, but I hope that Japan can play a very important role in bringing the world to a multilateral or larger-based regional framework rather than just a bilateral one. Bilateral agreements should focus on two or three very specific, special issues, not the regional or global ones like comprehensive trade structures.

CPTPP as a Savior of Multilateralism?

JS: How, then, can we restore multilateralism? Do you think the CPTPP could serve as a reference point for a high standard of international trade rules?

Zhang: It may. I think that the CPTPP could be fine-tuned but it would depend on the countries covered. There are some differences between the RCEP and CPTPP that you have to consider. The CPTPP presents a set of uniform rules and structures, but we would have to rethink some basic rules from the past that would not be possible on a global basis because the context is so different. But the CPTPP's contribution can be the rules, rather than the framework.

JS: Are you saying that the CPTPP could be useful to some extent in the restoration of multilateralism at the global level?

Zhang: I don't think so, it's a regional tool. Because multilateralism has not been achieved, countries are acting in smaller groups to trade within an open market framework. We can talk about bilateral pacts because countries have to make so many different arrangements that in the end need to be supported. As I said, regional agreements should focus on special issues that cannot be solved at the global level, but we still need an open framework on a global market basis.

JS: There are certain policies in China, like industrial policy and state-owned enterprises, which will eventually need to be discussed at an international forum like the WTO, or even in regional trade

agreements. Do you think these policies will continue to play a key role in China's economic policies?

Zhang: Each country focuses on supporting new industries and protecting some industries, but when identifying points of discussion, you need the same rules. You cannot change the basic rules – that's a key point. In Europe, for example, there are many state-owned enterprises that also play a key role, but they also follow the same rules. Regardless of the policy or structure, you have to follow the same rules. If you focus on a country's structures, you can't expect all countries to have the same structures. You would find that very difficult. In the case of state-owned enterprises in China, I think it would be difficult to abandon this policy, but the trend is toward international standards and the creation of a market role. Maybe the state-owned enterprise reports to a party secretary, but if you follow the market rules, the international rules, it doesn't matter. If you go to political issues, it becomes difficult to reach an agreement. You have to focus on the rules. In the global market, we have to follow the same rules. Once the rules are adopted and you don't follow the rules, then you will be punished or something. That's probably key.

JS: With regard to investment rules on foreign direct investment, the Belt and Road Initiative is a very important policy for China. Many investments are in countries with high political risk. In that sense, the legal framework becomes very important for protecting China's long-term infrastructure investments. With this in mind, what is China's current policy regarding investment liberalization? Is China's policy to promote investment liberalization?

Zhang: I think so. In its negotiations with the US, the Chinese government announced several liberalization approaches, including finance, capital markets, and banking, so I think the trend will continue to liberalize China's market. We have two approaches for the Chinese market. One is experimental free-trade zones like Shanghai – now there are more than 20. They are accumulating experience on how to manage various issues. The other is a country-based approach to liberalization; I believe there have been five or six announcements that relate to more than 10 sectors including telecommunications, investment, and finance and banking. I call it a second wave of liberalization.

Possibility of WTO Reform

JS: The WTO is important for promoting multilateralism. Currently, the US does not appear to be very interested in WTO reform. Assuming this will continue for some time, in particular against the background of the coronavirus continuing to cause the global economy to deteriorate, what are your thoughts on the possibility of WTO reform?

Zhang: It's very difficult, it's not an easy issue. There are many issues, including what kind of reform and how we reach a consensus. We have made progress with an interim bill on arbitration, the Singapore approach. We have some rules to address trade disputes. The US does not participate, but the majority of countries have some way to proceed when that happens. In terms of reform, personally, I'm not very optimistic, because without US participation it is very difficult to have global-based rules. We don't know about future US administrations, but if Trump is reelected he may continue the current US-led global market rules basis. If the Democrats win, there may be some hope of a different approach.

We have three key issues for WTO reform. One is the WTO's management itself. We've discussed this before, how all of the critical decision-makers have changed. The second is how to treat developing countries. Now, the US announces unilateral policies, but there are many throughout the world. I think it would be easier to focus on the trade issue rather than on developing or non-developing. If things continue as they are, that could become very controversial. The third area is how to reflect changes, especially in the trade structure. We discussed before, for instance, how maybe the RCEP or CPTPP can play a role because they already have patchworks of rules based on the former TPP, and we need to make rules together.

JS: In addition to rule-making, the function of dispute settlement seems to be in crisis.

Zhang: This is crucial. This is a key part for the WTO to address, so that finally we will have a rule-based foundation for solving trade disputes. Arbitration laws are one of the keys of the WTO. As I said, it's not easy to get a consensus, but this kind of interim regimen may work as a transitional measure. Ideally, however, it's better to go back to the old rules and select the ones to address as quickly as possible, but it's very difficult. However, we should not avoid going

back to bilateral measures, either.

JS: The WTO is critical for promoting a rule-based approach, in particular against the backdrop of a declining global economy. Do you think that WTO reform should continue to be one of the urgent issues for the G-20?

Zhang: I think so. China will strongly support the WTO, and also WTO reform. I think that is for sure. Among the three reform issues I mentioned, we first need to pick out what we want to work on first. We are also open to having the US join in from the beginning. That's one possible way. If we wait for the US, we don't know what the picture will look like.

JS: We believe it was at the end of last year when the European Union and 16 WTO members including China agreed to work together on an interim appeal arbitration arrangement. Do you think this tentative arrangement will work well?

Zhang: I think so. However, as I mentioned, we probably do not need to wait for the US. Based on who is willing to participate, we will have an interim arrangement and I think that is a positive step.

JS: Finally, as you said, to protect global supply chains in particular, we may need to call on the G-20 to stimulate the economy, and also to achieve rule-based global governance on the basis of WTO rules. In that regard, we should reform the WTO in favor of improving the dispute settlement function.

Zhang: Yes, I agree, but one thing I would like to point out again is that governance reform needs to consider the global economic structure now. This is because developing economies now account for a greater part of the global economy and these countries' trade ministers have made several statements, and when the big countries of the G-20 get together they have another agenda, so it is important to move step-by-step rather than to have one set of comprehensive WTO reforms. **JS**

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