A SYMPOSIUM OF VIEWS

# What Are China's Global Economic Intentions?

At this year's Davos meeting, Chinese President Xi Jinping announced to a surprised audience that China would be the world's new champion of globalization.

In his remarks, the Chinese leader said: "Economic globalization has powered global growth and facilitated movement of goods and capital, advances in science, technology, and civilization, and interactions among peoples. … [T]he global economy is the big ocean that you cannot escape from. Any attempt to cut off the flow of capital, technologies, products, industries, and people between economies, and channel the waters in the ocean back into isolated lakes and creeks, is simply not possible." President Xi finished by saying, "China stands for concluding open, transparent, and win-win regional free trade arrangements and opposes forming exclusive groups that are fragmented in nature."

Is President Xi being delusional, cynical, or forthright with his suggestion that China will be the world's globalization champion? Critics charge that while globalization has been good for China, China has not been good for globalization. China has devalued its currency to gain trade advantage (and now is supporting its currency merely to avoid capital flight), manipulated WTO rules while failing to meet its agreed-to commitments, and built up a mountain of excess supply capacity that has thrown a wet blanket of disinflationary pressure over the world economy. China championing globalization, they say, is like the chairman of Volkswagen saying his company is the champion of the benefits of fuel economy standards. Others say China is sensing a global leadership vacuum in the world as developed economies are turning toward more populist, inward-focused leadership.

***TIE* asked more than thirty noted observers for their analysis.**

*A "G-0" could emerge.*

**C. FRED BERGSTEN**
***Senior Fellow and Director Emeritus, Peterson Institute for International Economics, and author,***
**The United States, China and The Global Economic Transformation *(forthcoming)***

The rise of China to inevitable global leadership is the most important structural feature of the world economy in the twenty-first century. There are two fundamental questions: How will China interact with the incumbent leadership, especially the United States? And will China work to support the existing international architecture or will it seek to replace it with rules and institutions of its own?

It is doubtful that the Chinese authorities themselves have definitive answers to these questions (although numerous individual Chinese have made proposals that cover a wide spectrum on both). Much will depend on the economic performance and systemic behavior of the United States and other major players. Much will also depend on China successfully carrying out its economic reforms and laying a new foundation for sustainable as well as rapid growth.

The central issue is whether China will turn out to be a revisionist power or a revolutionary power. Revisionist powers seek change within the existing system. Revolutionary powers seek to alter the system itself.

To date, China has done some of both. On trade, it has benefited enormously from the rules of the World Trade Organization (and its dispute settlement mechanism), and indeed used them aggressively in the early 2000s to promote internal economic reform. But China has offered a starkly alternative model to that of the United States for regional integration: the Asia-only, much softer, and much less comprehensive template of the Regional Comprehensive Economic Partnership, in contrast to the Asia-Pacific membership and more rigorous and wide-ranging disciplines of the Trans-Pacific Partnership, and the totally different approach to trade and investment of the Belt and Road Initiative.

On finance, China has sought an ever-increasing role in the International Monetary Fund (including its management) while simultaneously rejecting some of its basic rules (especially banning currency manipulation) and sponsoring regional mechanisms (the Chiang Mai Initiative, the monetary component of the New Development Bank) that are potential competitors to the Fund. On foreign assistance, it provides substantial funding for the existing multilateral development banks but created the Asian Infrastructure Investment Bank to offer a new model—albeit one that has so far worked very closely with the incumbent institutions.

These developments suggest that, at least so far, China has decided to pursue both revision and revolution though with a decided emphasis on the former. This is consistent with its internal economic choices: increasing the role of markets and private companies, which make it both more competitive and more compatible with the global order, while simultaneously guarding the prerogatives and role of state-owned and state-managed enterprises, which create tensions within that order.

The future will depend importantly on the stance of the United States. If the Trump Administration and/or the U.S. Congress abrogate U.S. leadership of the extant system, or worse yet withdraw from active participation in it, China will be sorely tempted to fill the void either aggressively now or more gradually over time. But this still leaves open the key question: would it do so by seeking to assume a dominant role in the existing institutions or by looking to construct a largely new order in its own image?

China's rising economic (and broader) power assures a challenge to the traditional leadership structure. The incumbents will have to find ways to accommodate, consistent with their own national interests and sense of how the world economy should work. Conflict is certainly not inevitable although some historical transitions of this type have gone very badly. The issue must be confronted squarely in all the major capitals, especially Beijing and Washington, and by the present institutions as they experience the jockeying for power over the coming years and probably decades.

The transition period itself could be very difficult. Economist Charles Kindleberger famously attributed the Great Depression largely to the failure of the United States as the rising power to assume world leadership and provide global public goods, while the United Kingdom as the incumbent power lost its ability and will to do so. A similar "G-0" could emerge today if the United States falters and China hesitates. Functioning "G-2" cooperation between these superpowers, as we have seen at least fleetingly in response to the global financial crisis and the perils of climate change, would provide the most promising insurance against the replication of such a disaster.

*Xi Jinping's pretty Davos photo cannot hide the ugly direction China seems to be pursuing.*

**PIPPA MALMGREN**
*Founder, DRPM Group and H Robotics, and author,* **Signals: The Breakdown of the Social Contract and the Rise of Geopolitics** *(Grosvenor House, 2015)*

No one can be blamed for wanting to believe that China is leading the world economy into the future when it seems that no one else can or will. The United States under President Trump is a hard-to-like, isolationist power that neither inspires nor desires international confidence. Europe is not growing and all its energy goes into preventing a break-up of the euro if not the European Union itself. So Xi Jinping can go to Davos and play the role of Guardian of Globalization. But the pretty photo ops cannot hide the ugly direction China seems to be pursuing.

China has announced many things that go unnoticed. They must be incredibly grateful to President Trump for filling the headlines so that no one notices that it is now no longer legal in China to access the world's top fifty websites. Chinese citizens can't rely on a virtual private network to reach global search engines, because virtual private networks have just been made illegal.

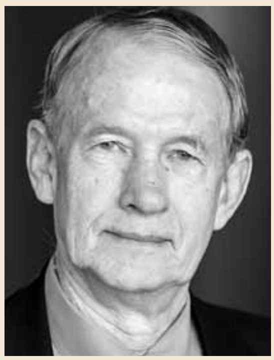
All this is part of the effort to staunch the striking flight of capital, which reflects a breakdown in confidence. Without much notice, China has shifted from being the country with endless reserves to one that has fallen below the safe level in spite of repeated warnings from the International Monetary Fund. It seems only yesterday that many thought China might save Lehman Brothers. Now China might not be able to save itself.

And yet China is committed to the most expensive and grand infrastructure build-out the world has ever seen: One Belt, One Road. The grandeur of the vision is striking. The new Asian Infrastructure Investment Bank opened in May 2016 with a balance sheet larger than that of the World Bank. It will finance the many ports, airports, bridges, roads, and railways that are springing up everywhere from Nicaragua to Africa to Croatia. China has completed the longest railway journeys in history in the last year from Yiwu in Eastern China to both Madrid and London. Nations everywhere are lining up to benefit from the largesse.

Seen from another angle, China is doing this because it simply cannot generate GDP at home any more. Chinese workers are no longer competitive, having priced themselves out of the market. Mexico is emerging as the new China, where wages are 20 percent cheaper (before the devaluation) and world-class quality control is possible. One Belt, One Road is an effort to create special economic zones outside the country. China's leaders are trying to generate GDP and demand for excess capacity abroad.

But anyone can see that this is going to take too long. The leadership in China has promised to double national incomes by 2020. So the whole country waits for growth, while the personal freedoms required to innovate are being quietly restricted. Consider China's new "social credit" system. It's an Uber ranking system for people. Paying a bill late or running a red light will now be part of your record. The government intends to track individuals using the RFID chips that are embedded into every garment and every household appliance, every car, every bus, and every bicycle. This will be triangulated with data from CCTV cameras, phone data, and more. The eventual introduction of electronic money will ensure that every transaction is recorded and added to one's personal score as well.

This narrowing of personal economic freedoms is hard to reconcile with the innovation China needs to generate.



*Beijing sees an opportunity to improve its international status rather than an invitation to seize the mantle of leadership.*

**GARY CLYDE HUFBAUER**
*Reginald Jones Senior Fellow, Peterson Institute for International Economics*

Most interesting is a comment made by Chinese Foreign Ministry official Zhang Jun, following President Xi's speech at Davos. Zhang said: "If people want to say China has taken a position of leadership, it's not because China suddenly thrust itself forward as a leader. It's because the original frontrunners suddenly fell back and pushed China to the front. If it's necessary for China to play the role of leader, then China must take on this responsibility." This may be the first time a senior Chinese official said something about China's leadership role in the world economy. But the big "if" in Zhang's comments leads to three observations.

First, China faces severe problems at home—air pollution, overcapacity, corporate debt, corruption, and so forth. The list goes on. Chinese leaders know that their legitimacy depends on visible progress on multiple challenges. Diverting attention to the demands of world leadership entails an unwanted distraction.

Second, serious world leadership would require dramatic opening of Chinese markets in sensitive sectors (agriculture, services, digital commerce), and generous provision of credit to developing countries. Such measures are costly in the coinage of domestic politics.

And third, while Trump's policies, together with populist turmoil in Europe, create an opening for China, Beijing views the opening as an opportunity to improve its international status rather than an invitation to seize the mantle of leadership.

The confluence of forces points to a rudderless world economy for several years, rather than an economy led by the United States, the European Union, or China. The best that can be hoped is civility between the great powers.

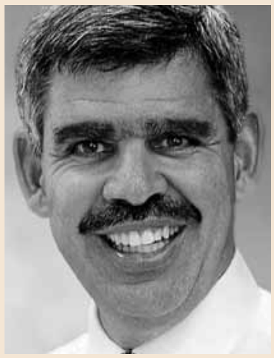
*China believes in globalization with Chinese characteristics.*

**BARRY EICHENGREEN**
*George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley*

China is now the world's leading exporter. It is one of the leading sources of foreign direct investment. Its enterprises are deeply enmeshed in global supply chains. It will remain a substantial net exporter of merchandise, since it is necessarily a net importer of energy and raw materials. In all these respects, the country is deeply invested in globalization and would pay a high price if that process shifted into reverse. This was the message that President Xi sent at Davos, loud and clear.

But China believes in globalization with Chinese characteristics. It believes in only partially opening the capital account of its balance of payments and in limiting foreign investment in the country. It believes in heavily managing its exchange rate. This is not the approach to globalization that policymakers in other countries necessarily prefer. But it is an approach largely appropriate to Chinese circumstances.

It will be interesting to see how China's trade and investment links develop now that the United States has rejected the Trans-Pacific Partnership and is creating an international commercial and financial vacuum that China aspires to fill. President Xi's rhetoric acknowledges that China has trade and investment links with all parts of the world. It may not be a coincidence that Xi emphasized that "China will keep its door wide open and not close it." Knowingly or not, he was echoing U.S. Secretary of State John Hay's "Open Door Note" of 1899, which opposed discrimination in trade with China by region and country. But standard economic logic—transportation and information costs rise with distance—suggest that China has a straightforward rationale for developing economic links within the Asia region. Moreover, with economic links come diplomatic and security linkages, and China has a special interest in creating a security buffer zone around its borders. Its recent initiative on the globalization front is not called the Asian Infrastructure Investment Bank for nothing.



*China cannot succeed without increasingly integrating into the global economy.*

**MOHAMED A. EL-ERIAN**
*Chief Economic Advisor, Allianz; and author,* **The Only Game in Town: Central Banks, Instability, and Avoiding the Next Collapse** *(Random House, 2016)*

One of China's trickiest economic development challenges is meeting its growing global responsibilities while navigating a tricky "middle income" transition and continuing to improve the wellbeing of the vulnerable segments of its population. This calls for responsiveness in how China views its economic and financial interactions with the rest of the world; and it also requires that other systemically important countries provide room for this emerging power.

To succeed, China needs to accelerate the ongoing transition from external to domestic sources of sustainable growth, and do so through domestic reforms that underpin sustainable strong drivers of internal demand. It also needs to continue the careful opening of its economy and financial system while contributing to the modernizing of a multilateral system that is still dominated by outdated rules and practices pertaining to governance and representation.

This cannot be done by China alone. Europe and the United States, in particular, can facilitate this by avoiding protectionist lapses and by accelerating reforms at the International Monetary Fund and the World Bank.

It is in the best interest of many countries that such a collaborative approach gain better traction. Absent this, the international system risks becoming less stable, global growth would face greater headwinds, and win-win multilateralism would face greater fragmentation pressures (including China being tempted to build pipes around it by entering into a broader range of bilateral payments arrangements and by backing new regional and multilateral institutions).

China cannot succeed without engaging in an increasingly integrated fashion with the global economy; and the global economy would struggle without a vibrant and responsible China.

*Xi is leading with an inspiring vision, but his ability and will to implement this vision remain to be seen.*

**WILLIAM H. OVERHOLT**
*Senior Fellow, Harvard University Asia Center*

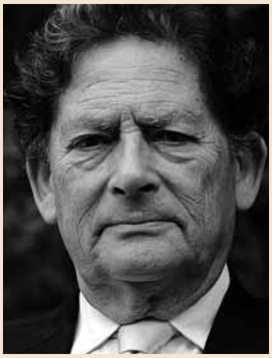
China is already the leader in providing a vision of globalization and in taking new initiatives. Beijing's Belt and Road Initiative is the logical follow-on to the Truman-Eisenhower strategy of using development to revive and stabilize the world economy. That U.S. strategy won the Cold War for the United States and created an improvement in human welfare unprecedented in history. But it has faded in the new century as the U.S. Congress constricted funding for economic and diplomatic efforts while generously funding the military. From 2001 on, U.S. strategy has been narrowly military. President Obama was slow to act on trade and reactionary on the Asian Infrastructure Investment Bank. The proposed Trans-Pacific Partnership–Transatlantic Trade and Investment Partnership restructuring of the global system was elitist, hypocritical (including Vietnam and Japan while excluding more-open China), and doomed to fail by excluding the world's largest trading country although nominally open to future Chinese membership. China's support for the Regional Comprehensive Economic Partnership and the Free Trade Area of the Asia Pacific is more inclusive and more likely to succeed. FTAAP was always the preferred alternative of the U.S. business community, while TPP was chosen by political leaders desiring to exclude China. Even U.S. allies such as Australia now see Xi's geoeconomic vision as more attractive than Trump's.

China is also now more decisively the world leader on climate change and environmental improvement. Although, like London in 1950 and Japan in 1970, it is digging itself out of a very deep hole, it is outspending the United States by a very wide margin on environmental amelioration and is the world leader in every form of clean energy.

But China's global vision has fragile domestic foundations. China's economy faces one of the most complex structural transitions in history, and reforms, confronting fierce resistance, are going slowly. Financial overextension is weakening the currency. Capital flight has led to a reversal of capital market opening, albeit through tightened enforcement rather than changed regulations. Together, these developments have interrupted the previously rapid internationalization of the currency. Nationalistic implementation of security and competition rules (from which domestic state-owned enterprises are exempt) have disadvantaged foreign companies. Political controls of state-owned enterprises are being strengthened, moving away from the concept of a level playing field with domestic and foreign companies all driven by commercial concerns. The services sector remains largely closed. The BRI could be constrained by the country's need to deleverage, by scarcity of creditworthy projects (try to find $46 billion of commercially viable projects in Pakistan), and by geopolitical reactions (which are *inter alia* affecting BRI rail projects in Thailand and Indonesia).

The more China uses economic warfare, as it has done with the Philippines and South Korea, the more geopolitical reactions there will be.

Washington allowed its successful postwar globalization vision to fade. Both Republicans and Democrats are unwilling to do what is necessary to spread the benefits of globalization beyond a tiny elite, so unsurprisingly an angry middle-class reaction has caused abdication of U.S. leadership. The U.S. right and the left are protectionist, while the center has no spine. The degradation of U.S. political dialogue on globalization centers on denunciations of China for predatory undervaluation of its currency at a time when it has been six years since the currency was undervalued and when China has recently spent hundreds of billions of dollars keeping it overvalued. Europe is too fragile, divided, and indecisive to lead. Xi is leading with an inspiring vision, but his ability and will to implement this vision remain to be seen.



*Watch China's actions, not its words.*

**NIGEL LAWSON**
***U.K. Chancellor of the Exchequer, 1983–1989***

China should be judged by actions, not words: by what it does rather than what it says. The two are frequently at odds. For example, China professes total support for the Paris Agreement on climate change policy, and urges the rest of the world (including in particular the United States) to abide by it, while (very sensibly) continuing unabated its plan to expand massively its own coal-fired power station capacity.

*China under Xi Jinping, while enjoying access to western markets, has closed off foreign investment in strategic sectors at home.*

**DANIEL TWINING**
***Counselor, German Marshall Fund of the United States***

China has been a primary beneficiary of the post-1989 wave of globalization that has transformed the world. The economic model that powered China into position as the world's second-largest economy was premised on wage-repressed labor under conditions of political authoritarianism churning out low-cost manufactured goods for consumers in the developed and, more recently, the developing world. But that phase of China's development is over: its society is rapidly aging, its workforce is contracting as a percentage of its overall population, wage rates have spiked, and it has moved up the economic value chain. Meanwhile, China's debt has ballooned to approximately 300 percent of GDP, in part as a result of non-market lending by state banks to finance extensive infrastructure development.

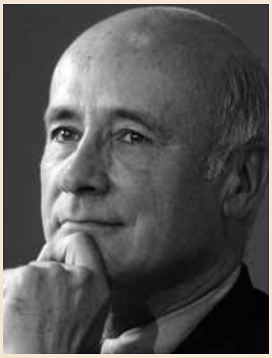
China's international economic goals therefore are now different. It seeks to export its surplus capacity overseas through programs like the One Belt, One Road initiative, designed to construct infrastructure linking China through port, road, and rail development to markets across Eurasia. It seeks to acquire crown jewels among Western technology companies through acquisitions in Europe and the United States. It seeks to turn China from the world's factory into a technology and innovation leader—a goal difficult to realize in the absence of rule of law and the freedoms of speech and association.

China also seeks to reorient the Asian and global economies around itself. The One Belt, One Road initiative is a physical manifestation of this ambition. So is China's construction of international economic institutions that exclude the United States—including the Regional Comprehensive Economic Partnership, the Asian Infrastructure Investment Bank, and the New Development Bank ("BRICS Bank").

Furthermore, rather than engaging in free-market intercourse with the rest of the world, China under Xi Jinping has created a highly unlevel playing field for trade and investment—taking advantage of the accessibility of Western markets even while closing off foreign investment in strategic sectors at home, and requiring foreign companies investing in China to work with a local "partner" that then acquires their technology and shows them the door. Key Chinese sectors are entirely closed, creating ironies like the fact that it contains the world's biggest number of internet users, but they are locked behind a "Great Firewall" impenetrable to tech leaders like Google and Facebook.

China's economic model is mercantilistic in important respects. The country's economic engineering is steered from the pinnacle of the Communist Party and its commercial development is structured to strengthen China's state, not to expand the writ of the market or deliver economic efficiency. The ambition of the country's leaders is to sustain the control of the Communist Party against perceived enemies, foreign and domestic, through a "rich nation, strong army" approach not entirely dissimilar to that of Imperial Japan nearly a century ago.

The connection between economic and military goals is evident in theaters like the South China Sea, the international waterway that carries over one-third of global trade and which China has militarized to assert its claims to sovereignty. China aspires to be militarily and economically hegemonic in Asia. It seeks to use its economic leadership to nurture political dependency by neighboring states to prevent them from taking decisions that undercut China's core interests. The United States, Japan, and India are the main countries standing in the way of China's imposition of an Asian "Monroe Doctrine" that could transform the twenty-first century balance of power in ways detrimental to both the United States and the liberal international economic order writ large.



*Chinese behavior has sought not to overthrow the liberal world order, but to increase its influence within it.*

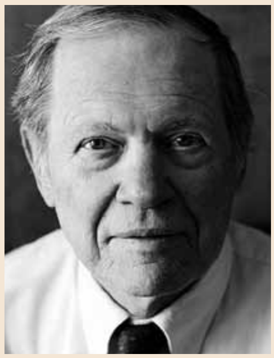
**JOSEPH S. NYE, JR.**
*University Distinguished Service Professor, Kennedy School of Government, Harvard University, former U.S. Assistant Secretary of Defense, and author,* **Is the American Century Over?** *(Polity, 2015)*

Xi Jinping was able to wow the elites at Davos in 2017 because the United States was playing hooky. Donald Trump and his incoming administration were absent, but the anti-globalization rhetoric of his election campaign loomed over the Swiss town like a frigid snow cloud. In that climate, it was easy for Xi to pose as the savior of globalization. But despite his warm rhetoric, a China that hides behind a "Great Firewall" and closes large sectors of its economy to foreigners is a very imperfect champion of globalization.

Nonetheless, his speech is a welcome hint that China may not fall into what I have elsewhere called the "Kindleberger Trap." Charles Kindleberger, the famous MIT economist, argued that the disastrous decade of the 1930s was caused when the United States replaced Britain as the largest global power but failed to help take on Britain's role in providing global public goods. The result was the collapse of the liberal international order into depression, genocide, and world war. In the next decades, as China's power grows, will it cooperate with the United States to provide global public goods such as a stable climate, financial stability, or freedom of the seas?

Some observers worry that China will free-ride rather than contribute to the liberal international order that it did not create. So far, the record is mixed. China benefits from the United Nations system, where it has a veto in the Security Council. It is now the second-largest funder of UN peacekeeping forces, and it participated in UN programs related to Ebola and climate change. China has also benefited greatly from multilateral economic institutions like the World Trade Organization, the World Bank, and the International Monetary Fund. In 2015, China launched the Asian Infrastructure Investment Bank, which some saw as an alternative to the World Bank; but the new institution adheres to international rules and cooperates with the World Bank. On the other hand, China's rejection of a Permanent Court of Arbitration judgment last year against its territorial claims in the South China Sea raises troublesome questions.

Thus far, Chinese behavior has sought not to overthrow the liberal world order from which it benefits, but to increase its influence within it. If pressed into a trade war by Trump's policy, however, will China continue to evolve toward cooperation or revert to being a disruptive free rider that pushes the world into a Kindleberger Trap? That is the question that makes Xi's Davos speech so interesting.



*What cynical blather? President Xi is desperate to preserve the multilateral system.*

**RICHARD N. COOPER**
*Maurits C. Boas Professor of International Economics, Harvard University*

I do not believe the speech of President Xi Jinping at Davos was cynical blather, designed to exploit in an international forum Donald Trump's scary statements, during his campaign and after, about dramatic changes in the role of the United States in the post-World War II global economy. The Chinese government has formidable problems of its own at home: life-threatening air and water pollution; Communist Party-threatening corruption of officials; an economic slowdown threatening higher unemployment from closure of firms and among a bulge of college-educated youth. And Xi himself is engaged in gaining effective support for a second term as General

Secretary of the Communist Party and as President of the People's Republic, and for the policies he might want to pursue during that term. The last thing he needs under the circumstances is a decline in Chinese exports to the United States and elsewhere which would threaten China's economic prosperity. In addition, imposing arbitrary import duties on Chinese goods would be a slap in the face to the Chinese government, violating the internationally agreed trading rules, which politically speaking would compel retaliatory action by China (even if unwise) against exports from the United States and other U.S. interests in and with China.

China is not about to replace the U.S. government as "leader" of the global economy. It is not prepared domestically for that role, and for all its economic success it is incapable of commanding the required respect internationally. If that role is soon to be played by anyone other than the United States, it must be the European Union, which itself is preoccupied with some internal disarray at present.

President Xi was in effect announcing that preserving the essential features of the current global economic system is in everyone's interests, including China's, and that doing so warrants and can count on China's support. In that sense, China is a champion of the current global economic system. It does sometimes violate the rules, but like others, including the United States, has generally responded to World Trade Organization disputes found against it.

As every serious economist knows, focusing on bilateral trade deficits in a multilateral trading system involves a fundamental analytical error. Following Trump's reasoning, should Australia take action against its trade deficit with the United States?

*China will use its soft power to gain international respect.*

**CARLA A. HILLS**

***Chair and CEO, Hills & Company, and former U.S. Trade Representative***

What are China's global economic intentions? Will China be the world's globalization champion? The answer is "perhaps" in some areas, and "no" in others, at least in the near-term. With the decrease in global growth and the build-up of government debt, China's leadership recognizes that it can no longer rely on its past economic model that looks to exports by state-owned entities and government infrastructure investments to create jobs and grow its economy. President Xi said in his Davos speech: "We will pursue supply-side structural reform as the *general* goal … we will *expand* market access for foreign investors … we will intensify reform efforts in *priority* areas …" [emphasis added]. The breadth and speed of reform were not addressed. The consensus among experts is that in recent years, China's reform efforts have slowed; in fact, the role of the state has increased.

Politics contributes to China's challenge. The nineteenth National Party Congress is scheduled to meet in the fall. If the Chinese Communist Party adheres to its rule that those sixty-eight or older must retire, then five of the seven members of the Politburo Standing Committee, eleven of the twenty-five Politburo members, and 208 of the 376 Central Committee members will step down, resulting in the largest turnover in the Central Committee in forty years.

My view is that the government has three key goals. The first is to maintain the primacy of the Communist Party. The second is to ensure domestic stability by doubling GDP between 2010 and 2020. The third is to enhance China's leadership and respect globally. The means used to advance one goal may make progress on another more difficult or even impossible in the short term. The goal of driving growth by letting the market play "a decisive role" is real, but closing unprofitable state-owned enterprises that consume excessive amounts of credit means laying off thousands of workers, stimulating protests that ignite social instability. A report by a Hong Kong labor rights group indicates that protests have soared from roughly 160 in 2011 to 2,300 in 2016. This past December, the Central Economic Work Conference set forth the 2017 economic priority as "seeking progress while maintaining stability," signaling that stability will take priority over economic reform. Instability would run counter to the goal of maintaining the primacy of the Communist Party and be particularly unwelcome in advance of the Party Congress.

I do believe we will see China use its "soft power" to enhance international respect. President Xi mentioned at Davos: "In May this year, China will host a Belt and Road Forum for International Cooperation" and that it "will advance the building of the Free Trade Area of the Asia Pacific and negotiations of the Regional Comprehensive Economic Partnership to form a global network of free trade arrangements." With Western nations retreating from globalization, China will take some steps to begin to fill the void. How far and how fast it moves remains to be seen.

*China faces severe political and economic domestic constraints in its pursuit of global economic integration.*

**ANDERS ÅSLUND**
*Senior Fellow, Atlantic Council, and co-author,* Europe's Growth Challenge *(Oxford University Press, 2017)*

With the election of President Donald Trump, the United States has turned inwards and abdicated its the role as the dominant global economic policymaker. The question today is whether chaos will arise or whether another power will emerge as global leader. At the World Economic Forum in January 2017, China's President Xi Jinping seized the moment to dominate, and surprised by lauding economic globalization. While his words sounded great, China's economy is neither open nor transparent.

In several regards, China does appear credible as an advocate of economic globalization. It is proceeding with negotiations of its Regional Comprehensive Economic Partnership that is replacing the U.S.-led Trans-Pacific Partnership, from which President Trump has withdrawn. The RCEP is set to become the most important free trade agreement after the European Union. Through its One Belt, One Road project, China is also pursuing substantial economic integration especially in the Central Asian region.

So far, so good, but China faces severe political and economic domestic constraints in its pursuit of global economic integration. A fundamental concern is that China officially claims its right to vast territories lost one or two centuries ago and does not recognize its current borders with most neighbors. While this revanchism has long been latent, it is becoming more blatant. The Chinese official position basically recalls the German view of the Versailles Peace Treaty in the interwar period.

Actual Chinese revanchism is becoming more likely because China is no democracy, and no communist state has been peacefully transformed into a democracy. Sooner or later, a major political eruption would be expected as the communist system is too petrified to reform. Such a metamorphosis is gradually becoming more likely because of the evolution of a system of crony capitalism, which scholar Minxin Pei has analyzed in his recent book. This crony capitalism is eroding the Chinese economic and political system, while generating ever-larger fortunes for the wealthy and hence greater economic inequality.

A natural consequence of a deteriorating economic system is a falling growth rate, which may scare the political leadership to aspire to greater concentration of power. In order to do so, the leaders might find it all too tempting to appeal to China's strong nationalism to reinforce its legitimacy and mobilize it against external enemies, of which China has a great choice.

As a consequence, the Chinese communist leadership is likely to jeopardize its need for global economic integration for the sake of greater domestic legitimacy, which is most easily satisfied with external aggression.

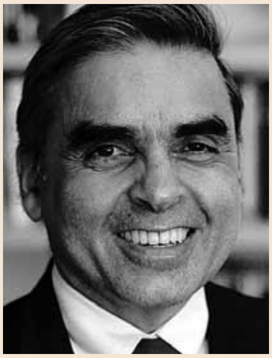
*For China, it is hard to lead by retreating.*

**DANIEL ROSEN**
*Founder, Rhodium Group*

President Xi and his leadership team say China can take the baton of global economic leadership from the United States if Washington withdraws. That is true: China can. But to do so, China would need to catch up quickly on increasingly behind-schedule domestic economic policy and political governance reforms.

Consider some of Xi's pledges. First, China says it will lead global cooperation in innovation. China could do that, but the current reality is that most of the OECD is reducing high-tech openness to China due to misgivings about Beijing's industrial policy goals. Second, on trade, China proposes to push forward regional liberalization. This is a noble concept, but in practice China is running a trade surplus with every region of the planet except Oceania, for the first time in history (the past three years). On cross-border direct investment, President Xi assured Davos that China would keep it coming, with $750 billion more in foreign direct investment through 2020. But he pointedly said he intended that foreign firms could invest much less than that in China, aggravating recent questions about reciprocity. And on financial account liberalization, to fend off balance of payments pressures Beijing is reimposing capital controls.

The bottom line is that it is hard to lead by retreating, and while China could be moving forward by accelerating fundamental reforms at home, in reality it has been stalling on those.



*China's goal is to restore the pride and dignity of Chinese civilization.*

**KISHORE MAHBUBANI**
*Dean, Lee Kuan Yew School of Public Policy, National University of Singapore, and author,* **The Great Convergence: Asia, the West and the Logic of One World** *(PublicAffairs, 2014)*

What are China's primary goals in the current world order? To replace the United States as the global hegemon? Or to revive and restore the strength and dignity of Chinese civilization?

To understand China's goals, we first have to understand China's history. From the first Opium War in 1839 to the end of the Cultural Revolution in 1976, the Chinese people suffered over 130 years of hellish experiences, from foreign occupation to civil wars, from famines to internal turmoil. Then Deng Xiaoping came along and launched China's Four Modernizations in 1978. What followed was heavenly.

Over eight hundred million Chinese people were lifted out of poverty. The middle-class population exploded. China went from sending out zero Chinese tourists in 1978 to sending out over one hundred million Chinese tourists in 2016. And over one hundred million Chinese tourists returned home freely, demonstrating the dramatic improvements in personal freedom that the Chinese people had experienced. And what was the "magic" that delivered this new "heaven" to the Chinese people? It was the bold decision of Deng Xiaoping to open up the Chinese economy and integrate itself with the global economy. The Chinese knew that they could not have succeeded as well as they did if China had not been admitted into the World Trade Organization in 2001.

Hence, when President Xi speaks about the virtues of globalization, he reflects a deeply held conviction among Chinese policymakers that China is better off integrating itself into an open global order. Equally importantly, as a result of having the world's fastest-growing economy for over three decades, the Chinese people have become culturally confident about their ability to compete on any level playing field. Deng Xiaoping knew all along that the Chinese people could compete, as he had observed the extraordinary economic success of overseas Chinese communities, especially in Hong Kong, Singapore, and Taiwan.

What will China do with its newfound economic strength? Will it try to take over America's role as the global hegemon? The simple answer is no. China does not see itself as "a city on a hill" with an "exceptional" mission to liberate the world. Instead, China wants to restore the pride and dignity of Chinese civilization, which lost a lot of its lustre in the painful nineteenth and twentieth centuries. China does not worship economic growth as an end in itself. It is only a means to an end: to prove that Chinese civilization is as strong and as capable as Western civilization. This is why the Chinese Communist Party should change its name to the Chinese Civilization Party. This will reveal the true intentions of the Chinese leaders.

*China wants to promote its own* **dirigiste** *economic model.*

**DIANA CHOYLEVA**
*Chief Economist, Enodo Economics, and co-author,* **The American Phoenix and Why China and Europe Will Struggle After the Coming Slump** *(Profile Books, 2011)*

China's global economic intentions are first and foremost driven by its political ambition to return to greatness. Globalization has served China well, transforming it into the world's manufacturing powerhouse and propelling forty years of spectacular growth. But China's integration into the world economy has been only partially successful at best; in the worst case, China could yet threaten to unravel globalization.

For the most part China has accepted free trade in goods and services, but has ensured the global playing field is far from level by keeping its capital account closed and tightly managing its exchange rate.

The 2008 financial crisis taught Beijing that capital controls no longer shield its huge economy from global forces now that China is an integral part of the world trade system. The crisis forced Beijing onto the defensive. Its knee-jerk response was a huge stimulus that, by creating excessive debt, only served to compound China's long-standing problem of overinvestment.

Beijing has fully acknowledged the need to reform its economy, and over the past three years has worked hard to do so. The task is a tough one, akin to changing the engine while the car is moving. This is extremely uncomfortable for Chinese policymakers, who want to be able to steer global developments in the national interest and not to be pinned in the passenger seat again, as they were after the crisis. They have realized that taking control means being proactive about their financial system and exchange rate regime, not reactive.

Chinese officials are clear about their long-term goals: they want to open up the financial system and promote the global use of the renminbi in trade and finance; they favor free trade; and they want China to play the leading political and economic role in Asia and beyond.

None of these aspirations will be achieved by a predetermined, relentless march forward but, rather, by China's preferred mode of trial and error. Policy progress will be marked by two steps forward, one step back. Mistakes will be made as Beijing sails into uncharted waters.

Don't get me wrong: China is by no means embracing Western, free-market liberalism. It wants to promote its own *dirigiste* economic model. But to exert global influence, Beijing recognizes that it needs to internationalize its financial system while retaining access to the Western know-how it needs to climb up the value chain.

*China's international economic goals are therefore exactly what they seem to be.*

**JAMES K. GALBRAITH**
***Lloyd M. Bentsen, Jr., Chair in Government/Business Relations and Professor of Government, Lyndon B. Johnson School of Public Affairs, University of Texas at Austin***

The myth of the inscrutable oriental is one of the enduring fantasies of the Western mind. My experience from 1993 to 1997, as chief technical adviser for macroeconomic reform to the State Planning Commission of the People's Republic, was the opposite. At official meetings in Beijing, my interlocutors were almost comically candid in my presence. To be sure, they were speaking Chinese. But the fact that my wife, a PRC national, was sitting in the room bothered them not at all.

The most likely Chinese international economic goals are therefore exactly what they seem to be. They are: first, to maintain open and peaceful trading relations with the West; second, to secure supply lines and trade routes through One Belt, One Road; third, to build infrastructure and develop new resource supplies in Africa and elsewhere; fourth, to keep the status quo in the Taiwan Strait; and fifth, as China's President Xi Jinping said, to safeguard the existing global economic order, including the Paris Climate Agreement. China after all stands to be devastated by climate change twice over: by the disappearance of Himalayan glaciers affecting the great rivers, and by rising sea levels affecting Shanghai and other cities on the coast.

As for the currency, China in fact allowed the RMB to rise for quite a long time, under U.S. pressure and contrary to the manipulation thesis. It is falling again now. But this reflects the leakiness of capital controls and the strength, equally evident throughout the world, of the God-almighty dollar.

*Like Bill Clinton, President Xi is a global visionary.*

**LAURA D'ANDREA TYSON**
***Professor of Business Administration and Economics, Haas School of Business, University of California-Berkeley, and former Chair, President's Council of Economic Advisers***

Managed openness to trade and foreign investment have been pillars of China's development strategy. And the strategic embrace of globalization has paid off. China has grown at unprecedented rates for more than thirty-five years, has emerged as the world's second-largest economy, and has lifted hundreds of millions of its citizens from dire poverty. China's economy has fostered strong links to global markets. According to indicators developed by the McKinsey Global Institute, China ranks fifth out of 85 countries on global connectivity in goods trade and sixth on global connectivity in financial flows. By comparison, the United States ranks eighth and fifth on these measures and the countries that outrank China are all much smaller economies. China has become the center of an elaborate supply chain in the Asia Pacific, and together China and its regional neighbors now account for about 60 percent of global growth.

China has been a major beneficiary of the global trading system and the global institutions that support it. Recognizing that reality, President Xi wants to safeguard the system's stability. The other major beneficiary has been the United States. But President Trump is blind to that reality, arguing that the United States has been a victim of the very rules and institutions it created, and threatening to disrupt or destroy them through unilateral protectionist policies.

As one of his first acts in office, President Trump walked away from the Trans-Pacific Partnership, a regional trade agreement embodying U.S. rules on trade, business, and investment, and containing concessions that would have benefited U.S. businesses and their workers. The United States excluded China from participating in the agreement that became a key part of Obama's strategy to contain and influence China. President Trump, who touts his ability as the consummate dealmaker, rejected the deal, sacrificing its potential economic gains, abandoning the U.S. role as champion of a rules-based trading system based on western norms, and undermining U.S. credibility throughout the Asia Pacific.

China has been steadily gaining influence in the region, and President Xi has stepped into the vacuum created by America's abrupt turn toward naïve mercantilism. China is spearheading the Regional Comprehensive Economic Partnership, a trade liberalization initiative among sixteen Asian and Pacific countries, including America's strongest economic and political allies in Asia. The United States is not excluded from participating in RCEP, but there is no sign it will do so. RCEP focuses on reducing tariffs and does not require its members to liberalize their economies, to strengthen intellectual property protection, or to protect labor rights and environmental standards, all defining features of TPP at U.S. insistence. In another trade liberalization initiative, President Xi has proposed a trade and investment agreement with the European Union which has signaled growing interest as China has become Europe's second-largest trading partner after the United States.

As part of its ambitious One Belt, One Road infrastructure plans, China has launched the Asian Infrastructure Investment Bank with a commitment of $100 billion. Despite misguided U.S. opposition, the AIIB counts among its members many U.S. allies including Australia, Britain, Germany, South Korea, and the Philippines. In addition, China has deployed significant investments in emerging market economies from Asia to Africa to Latin America to foster trade and to build influence.

Under President Xi's leadership and in keeping with China's growing role in the global economy, China's currency was added to the basket of the world's reserve currencies in 2016 and despite recent large capital outflows, China remains committed to gradual liberalization of its capital markets. Contrary to President Trump's claims, China is no longer manipulating its currency to gain competitive advantage. Instead, it is acting responsibly to prop up the value of the renminbi in the face of considerable downward pressure from capital outflows.

The United States under President Trump threatens to disrupt the global trading, investment, and currency systems. China under President Xi is seeking to establish new rules, agreements, and institutions to stabilize and strengthen these systems. Like the visionary U.S. president for whom I once worked, President Xi believes that globalization powers global growth and facilitates advances in science, technology, and civilization. China's successful development is compelling evidence that he is right.

*Xi is serious about globalization, but wants to tilt the rules in China's favor.*

**ROBERT A. MANNING**

***Senior Fellow, Brent Scowcroft Center for International Security and its Strategy, Foresight and Risk initiative at the Atlantic Council***

Xi Jinping's paean to globalization in Davos may have been a largely cynical move to step into the leadership vacuum that the logic and trajectory of Donald Trump's "America First" concept may be creating. But Xi's appreciation for globalization was also a sincere reflection of the fact that no nation has benefited more from globalization than China. As China integrated itself more deeply into the international trade and financial system, its economy grew from $200 million in 1980 to $11 trillion-plus by 2015.

Regardless of Trump, Xi's economic intention is simply to Make China Great Again. What legitimacy the Chinese Communist Party has is based on transcending the "century of humiliation" and renewing the glory of the Middle Kingdom. Part of that ambition is gaining respect for China as a Great Power. Xi has broken the code that providing "public goods," as the United States did after World War II, is key to enabling a global leadership role. Hence, the "One Belt, One Road" initiative to build Eurasian connectivity, the Asian Infrastructure Investment Bank, and other Sino-centric institutions like the Shanghai Cooperation Organization.

It is grating that so far, Xi's strategy for achieving his goal is a mirror image of the economic nationalism that Trump and his adviser Steve Bannon favor. China's stated reform goals are to transform its economic model from a statist, investment-driven, export model to one of a consumption and services-based knowledge economy where markets are the "decisive factor."

Yet rather than building on the "reform and opening" approach that led to China's stunning economic success, Xi, while paying lip service to those principles, is doubling down on state-owned enterprises, curbing foreign economic participation, and expanding a heavily nationalist industrial policy to develop "national champions" in key industries. For example, Xi's "Made in China 2025" plan identifies key advanced manufacturing sectors—semi-conductors, robotics, and artificial intelligence, for example—and creates several multi-billion investment funds to acquire such capabilities.

The latest report from the U.S. Chamber of Commerce in Beijing said that 80 percent of U.S. firms feel less welcome in China. Xi is serious about globalization, but wants to tilt the rules in China's favor, as one would expect from an emerging Great Power. But there are two problems for China. Internationally, there is a counter-globalization backlash, so far mainly in the West, that is leading to a fraying of leading global institutions like the World Trade Organization. Xi's larger problem is internal. China has a massive corporate debt problem (260 percent of GDP) a property bubble, massive environmental damage, and a demographic problem of aging. Politically, Xi has tightened political and cultural controls, leaving many middle-class Chinese looking for an exit strategy.

Putting off the politically difficult economic restructuring means perpetuating these negative elements in order to sustain short-term growth and violating the first rule of holes. This suggests China will fall into the Middle Income Trap for some period of time. That will increase the difficulty (and deprive him of resources) of realizing the global role to which Xi aspires.

*Will China evolve to be open like the United States, or an export powerhouse like Germany and Japan?*

**CATHERINE L. MANN**

***Chief Economist and G-20 Deputy, Organization for Economic Cooperation and Development***

It is no surprise that China champions globalization. For China, export markets have spurred a growth rate sufficient to move millions of people out of poverty into the middle class and affluence. Global markets in direct investment, education, and migration have transferred technology and know-how that are catalyzing indigenous innovation, managerial expertise, and expanding the private sector. The long period of net export surplus has generated a substantial foreign currency insurance policy to allow a careful navigation of globalization of financial markets. So globalization has served well the national interest.

But globalization managed through a national lens affects how globalization plays out for other countries. Inevitably, the benefits of globalization would distributed differently and ultimately would be constrained if every country managed their globalization.

So how might the balance between globalization and the national interest change as China matures? There are several lenses. First is participating in global public goods: That is, the development of and adherence to international standards, such as environment, supply chain, and competition policies. These global public goods help level the playing field between domestic and foreign competitors and therefore will affect the distribution across sectors, workers, and countries of the gains to globalization. Greater global leadership requires using domestic policy to address the internal reallocations of labor and capital associated with the stronger and more variable winds of trade. Second is greater openness to international capital flows. Greater openness to international capital flows requires a more robust domestic financial structure and effective policies to ensure domestic resilience in the face of private sector influence over exchange rates.

But perhaps the most important view on the global economy of China's future globalization comes through the domestic lens—how will China evolve in terms of its domestic structure and aggregate demand? Will China be like the United States, a large economy, open to global markets with a high share of private competition, flexible markets, and robust services sectors—one that for the last few generations has spent more than it produces, thus contributing to global demand, and yielding a dominant currency that is a unit of account, means of exchange, and store of value, but also one where the exchange value of the currency and international capital flows are driven by private sector decisions? Or will China be more like Germany and Japan, export powerhouses, with relatively more modest domestic aggregate demand, relatively protected domestic services, and where, because of these, systematically production exceeds aggregate demand yielding downward thrust to overall global demand?

Overall, which type of country the future global China might be is key for the strength of the system supporting global public goods, the health of global market opportunities, the number of rungs on the development ladder for other countries to propel their own growth, the depth of international capital markets, and, possibly, the viability of a multipolar reserve currency system.

***Chinese leaders desire to see steady global growth, and opportunities for China to exploit it.***

**KENT CALDER**

***Director, Reischauer Center for East Asian Studies, SAIS/ Johns Hopkins University***

China is a country of nearly 1.4 billion people, with a good deal of internal diversity, and a daunting problem of internal governance. Its economy is slowing, but the speed of social transition remains high, and domestic inequality is rising. Stability in global economic parameters is necessary to support stable growth at home. This is especially important in 2017, as China's top leadership is up for reappointment to a second five-year term at the National Congress of the Communist Party of China, which is convening late this year.

Given China's scale and diversity, there are naturally different definitions of what stability should entail, and what is needed to secure it. Among the middle class of the large coastal cities, stability means predictable increases in personal living standards; the private business world is understandably looking for profits. For the Communist Party of China, the People's Liberation Army, and public corporations, however, stability naturally has a more political dimension. And political stability is necessarily linked to the ability of the Chinese domestic economy to provide rising living standards in a predictable way.

To secure stability in the two dimensions prioritized by urban dwellers and political interests respectively, Chinese leaders desire to see steady global growth, and opportunities for China to exploit it. Macroeconomically, they seek to do this through a gradual depreciation of the RMB, which encourages exports, as well as investment from abroad. To cultivate new markets abroad, as traditional G-7 markets become saturated, and to aid depressed materials industries at home, China promotes large-scale infrastructure spending across Eurasia and surrounding regions, focusing on ports and rail facilities under the One Belt, One Road initiative. Ultimately, China strives to assure a stable and respected position as a global leader, within a concert of powers framework, through deepened ties with Europe, recognition of the RMB as an international currency, and an increasingly central role in multilateral institutions worldwide. President Xi is being forthright; China's underlying long-term strengths suggest that he is not being delusional.

***Without the continued U.S. presence, China's influence and domination may become a geopolitically destabilizing factor for the region.***

**IL SAKONG**

***Chairman, Institute for Global Economics, and former Minister of Finance, Korea***

President Xi Jinping has repeatedly emphasized achieving the "Chinese dream," that is, "great rejuvenation of the Chinese nation" as his government's major goal. It reflects the Chinese people's general aspirations of getting the nation's old glory of "the Middle Kingdom" back from the "century of national humiliation."

It is a far cry from Deng Xiaoping's national strategy of keeping a low profile until getting stronger. Indeed, thanks to Deng Xiaoping's reform policies of the late 1970s, Chinese economic success for decades following was phenomenal. Furthermore, with nearly 10 percent average annual growth, China was able to "save the world" in the sense that the global economy could avoid a deeper recession during the 2007–2008 global financial crisis.

As the nation gained substantial self-confidence, President Hu Jintao publicly acknowledged China's "peaceful rise." Xi Jinping's new national goal of achieving the "Chinese dream" can be seen as an extension.

Since around 2007–2008, China has become more assertive and played a higher-profile role in global affairs. In doing so, China has taken a two-pronged approach: first, a more active engagement in existing global institutions, for example, the Bretton Woods institutions' reform and climate change negotiations; and second, initiating regional (almost global) institutions and projects such as the Asian Infrastructure Investment Bank and the One Belt, One Road project.

Early this year, President Xi Jinping at the Davos forum publicly promised China's strong support for continued globalization and China's leadership role in that regard. Undoubtedly, it will not be easy to turn his rhetoric into reality given the current Chinese economic and political situation.

Certainly, President Xi Jinping would know that China is not ready yet to exert the necessary global leadership to fill the potential leadership vacuum left by the United States under the Trump Administration. However, as the United States withdraws from its leadership role in Asia, China will definitely try to take advantage of the situation in a more aggressive way and attempt to reestablish the Sino-centric regional order.

Under such circumstances, it would be a historical mistake for the United States to withdraw from Asia. Without the continued U.S. presence and leadership playing a balancing role in the region, China's influence and domination may become a geopolitically destabilizing factor for the region which in turn will negatively affect the region's economic dynamism.

According to the Asian Development Bank, Asia is expected to contribute nearly 70 percent of global economic growth for 2040–2050. No country, especially the United States, can afford to make a silly mistake of giving up on huge future economic opportunities.

In the meantime, the United States and the rest of the world should encourage China to engage more actively in the existing global institutions and global governance, so that China does not try to make China-initiated regional institutions become competitive alternatives to rather than complementary for existing global institutions. At the same time, they should make every effort to participate in the Chinese-initiated institutions and projects.

*Americans should cheer Xi's message.*

**JAMES E. GLASSMAN**
***Head Economist, Chase Commercial Bank, JPMorgan Chase***

If anyone can visualize the benefits of globalization, it would be China's leaders. China's economy has enjoyed a remarkable transformation as a result of globalization over the past quarter-century. So President Xi Jinping's strong endorsement of open global trade wasn't a surprise. The surprise is that he, not the United States, is championing the case for globalization.

Not long ago, China opened her borders to the international business community. That allowed her to develop at a fast pace. Her progress has been breathtaking: China's living standard has climbed from 1 percent of the U.S. level twenty-five years ago to 10 percent today. This didn't come at the expense of the United States or anyone else, because U.S. living standards have climbed at a solid 3.5 percent annualized rate over that period as well. Instead, China's development as well as that of other emerging economies has expanded the global economic footprint. If open global trade enables China to continue to grow two to three times as fast as the developed economies, she will match the U.S. living standard by the end of this century. That's great for China, but what about us? The greatest story never told is that America will reap enormous benefits as Asia's consumer markets expand. The potential is enormous, because half the world's people live and work there. Naturally, until the living standards of our trade partners match ours, trade will be out of balance. In other words, today's trade imbalances aren't the result of currency manipulation. Indeed, China's currency appreciated 55 percent versus her trade partners in the decade building up to 2015. In this sense, trade imbalance represents a temporary investment in future economic opportunity.

Americans most of all should understand and cheer Xi's message, because we owe much to globalization for our high living standard. Indeed, globalization has been a hallmark of the rise of market economies, going back to Marco Polo's Silk Road to China, the Dutch who championed international trade in the seventeenth century, and the (Bretton Woods) anchor the U.S. economy provided that restored Europe and Japan following two devastating wars.

If Americans believe that globalization has stolen their jobs, they are confusing globalization for technological change. Globalization has lifted America's exports by almost $2 trillion annually over the past quarter-century. That would never have happened without open global trade. For sure, imports do exceed exports by $500 billion today and that may appear to represent work that Americans could be doing. But this will change when America's trade partners prosper and they have the purchasing power to reciprocate. In fact, today's trade deficit is a small offset to the $2 trillion expansion in exports.

Globalization hasn't stolen jobs. America has jobs, lots of them. That's why unemployment is back to normal levels. A record 5.5 million job openings are going unfilled because people don't have the appropriate skills. That will change over time. The challenges Americans face are the result of technological innovation that has automated millions of manufacturing jobs over the last couple of decades. Manufacturing has fragmented, and global supply chains spread work around the globe. That has made it difficult for people to see the jobs that globalization has created. But America has gained jobs as a result of globalization.

When we help others, we help ourselves. And we ought to cheer President Xi's endorsement of globalization, because we owe much of our success to globalization. China's global economic intentions are no different than our own and that is to lift the living standard of our people. Our economies are becoming interconnected, more dependent on each other, thanks to globalization. Globalization promises to deliver better economic balance, broader economic opportunity, and greater geopolitical stability.

*Trump is helping China find its next growth thrust.*

**W. BOWMAN CUTTER**
*Senior Fellow and Director, Economic Policy Initiative, Roosevelt Institute*

Over the last twenty-five years, China's economic achievements have been extraordinary. In that period, she has gone from being a global economic irrelevance to becoming the second-largest economy in the world. China has built a substantial middle class and in the process brought several hundred million people out of poverty. At the same time, her long period of focus on export-led manufacturing growth has lowered consumer prices in the rest of the world but simultaneously has been a factor—not the biggest one, but that's another story—in the long-run decline of manufacturing employment in both the United States and Europe. As a now well-established economic power, China clearly has the economic muscle to insist that it be one of the world's economic decision makers.

And it is in this direction—clearly establishing itself as a decision maker—that China has now turned. She will likely proceed on two dimensions: First, making China the core influencer in infrastructure investment in Asia; and second, becoming the most important player in the structuring of trade in Asia.

China has already made a significant start in the huge area of infrastructure investment. Two significant initiatives should be underlined. First is the Asian Infrastructure Investment Bank for which China led the creation. This bank is now, after about three years, two-thirds the size of the Asian Development Bank which is over fifty years old. Second, China has announced its One Belt, One Road initiative which she sees as a multi-nation collaboration focusing on economic development and trade from China to Europe. Her image or metaphor for this initiative is the Silk Road that for centuries linked China with Europe.

Until very recently, it was not at all clear how China could establish the same momentum and primacy—with herself at the center—in Asian trade. A U.S. initiative carried out together with almost all Asian nations except China, the Trans-Pacific Partnership, seemed certain to become the core organizing structure for Asian-Pacific trade and the means through which the United States remained at the center of Asian trade. But bad politics almost always beats good economics. In the 2016 U.S. presidential election, both Hillary Clinton and Donald Trump opposed the TPP, which had been the central international economic strategy of the Obama Administration. And immediately after becoming president, Trump pulled the United States out of the TPP. Both sides misperceived the TPP as only a trade deal, and failed completely to understand that its real importance was as a political structure.

As a result, China now has a clear path to achieving its second economic leadership goal. My own guess is that a renewed and renamed TPP will soon emerge with China as the lead player.

Let's go back seventy years to understand what's now happening. In the early post-World War II years, the United States led the creation of all of the major international economic institutions of that era. We took on this role quite consciously because it was the right thing to do for the post-war world, and also because it was extremely beneficial to us. We benefited enormously from participating in the growth of Western Europe and Japan for half a century after the war. And the institutions that Secretary of State Dean Acheson called "the creation" were a major part of the shaping of that growth. Importantly, for decades there was a bipartisan consensus to support this "creation."

Today, China faces major economic challenges over the next decade. Export-led growth cannot be the source of her growth. So China will have to find her next growth thrust from two sources—her own "model change" toward domestic demand-led growth, and participation in the burgeoning growth of the whole Pacific region. And China seems also to have concluded that she has to help build the institutions that will nurture and shape this region. China is succeeding in this venture. Perhaps sometime in the future the United States can find a way to re-establish a role in this second "creation."

***At Davos President Xi spoke about openness and economic globalization, which fits well with the current fashion for "alternative facts."***

**RICHARD JERRAM**
***Chief Economist, Bank of Singapore***

Does China have any intentions towards the global economy? This seems doubtful, in the sense that it does not have an economic system that it wants to promote to the world, nor the will to spend hard or soft capital in areas that are not directly related to its interests. It wants to participate in the market for goods, services, and capital, while minimizing its contribution, but that is hardly a unique position.

In Davos President Xi spoke about China's commitment to openness and economic globalization, which fits well with the current fashion for "alternative facts," considering the mercantilist nature of its political economy. As with politicians the world over, we have to look at actions, not words, and China's economic nationalism is striking. However, the tendency to free-ride on global structures is not particularly unusual or worthy of censure for a developing economy. Domestic interests invariably take priority, as shown by a progressive tightening of capital controls over the past year to enable financial repression to continue.

It is laughable to think that China could provide an alternative if the United States pursues an increasingly isolationist policy with restrictive barriers to trade. China is a large economy, but still a middle-income one. It has no readiness to open its market or to act as a "buyer of last resort," especially as it fights domestic overcapacity and a massive credit bubble. Moreover, the "Made in China 2025" plan involves raising the domestic content of core materials and components to 40 percent in 2020 and 70 percent in 2025. An import-substituting industrialization policy—one of the criticisms being levelled at Trump's "America First" stance—is not consistent with the idea of China leading global trade growth.

It is an uncomfortable conclusion, but it seems reasonable to think that if America retreats into isolationism, no other country will be available to fill the gap. At best this will imply fragmenting production networks and further reductions in growth and productivity. At worst, a range of geopolitical risks become credible.

***Despite Xi's pledge that the market would play a "decisive" role, China has become more interventionist, protectionist, and repressive.***

**GEORGE R. HOGUET**
***Chief Investment Officer, Chesham Investments, LLC***

China's global economic intentions are to promote those aspects of globalization that enhance its emergence as an economic and financial superpower, and to reject those aspects that could force large-scale adjustment and undermine one-party rule. Chinese policymakers plan for the long term, but in the short term they face the prospect of a trade war with the United States and a corporate debt crisis that could lead to a "lost decade" of sharply reduced growth and social tensions. They intend to avoid both, but the situation is highly uncertain.

President Xi Jinping's Davos speech, in which he declared, "No one will emerge as a winner in a trade war," should be seen in the context of his stated "Chinese Dream" of building a "moderately prosperous society in all respects" by 2020. It is also consistent with themes outlined in Xi's November 2014 speech, "Diplomatic Strategy Under New Conditions." This strategy takes into account "waning western dominance in world affairs, the collective rise of the emerging markets…and the enormous interdependence between China and the world economy." It also seeks to "turn China's neighborhood areas into a community of common destiny," promoting "win-win outcomes" and "increasing the representation and say of China and other countries in global governance."

China has been a major beneficiary of the liberal global trade and investment regime. When China joined the World Trade Organization in late 2001, its annual merchandise exports totaled $266 billion, and foreign exchange reserves stood at $212 billion. Today China is the world's largest exporter with annual merchandise exports of $2.3 trillion, and foreign exchange reserves (despite roughly a $1 trillion outflow over the past twelve months) of $2.9 trillion.

But it has been—and will continue to be—"globalization with Chinese characteristics." For much of this century, the Chinese economy was built on an undervalued exchange rate, financial repression, and subsidies, not to mention cyber theft. While China's current account surplus as a percent of GDP has fallen from 10 percent in 2007 to 2.7 percent in 2015, the Chinese economy continues to suffer from major distortions.

And despite Xi's pledge in 2013 that the market would play a "decisive" role in the allocation of resources, in recent years China has become more interventionist, protectionist, and repressive. For example, China promotes "national champions," discriminates against U.S. "new economy" companies such as in formation technology and media companies, and blocks its citizens' internet access to U.S. social media and newspaper portals.

China senses that U.S. withdrawal from the Trans-Pacific Partnership provides an opportunity. Its international economic policy includes promoting new regional and international financial institutions (such as the Asian Infrastructure Investment Bank) and trade and investment agreements; growing overseas investment by Chinese firms; very gradual internationalization of the RMB; and domestic financial market liberalization and gradual increased access by foreigners to the A-share and local bond market. All this is with the view of promoting Chinese exports, strengthening China's regional hegemonic role ("One Belt, One Road") and promoting the RMB as a reserve currency.

Trump's ultimate acknowledgement of the United States' "One China Policy" reflects the objective conditions of the U.S.-China relationship. A serious deterioration in U.S.-China relations would be very harmful to both countries and the global economy. Skillful diplomacy will be needed to manage the increasingly contentious points of friction.

*The Davos crowd experienced a reality distortion.*

**MILTON EZRATI**
***Chief Economist, Vested, and author,* Thirty Tomorrows: The Next Three Decades of Globalization, Demographics, and How We Will Live *(Thomas Dunne, 2014)***

When China offers itself as a champion of globalization, reality must intrude, even if the conversation is held in Davos. There are, of course, aspects of globalization that China treasures. It has built its prosperity on what can only be described as an export machine. But in many ways, China has balked at the steps needed to become a truly open economy, much less a champion of globalization.

A thorough review of the ways in which China resists globalization would extend far beyond the space available here. Some seem minor, such as the remarkable number of local content subsidies provided by Beijing and provincial governments. Other matters stand out as more significant impediments in any conventional definition of openness. Two in particular should provide a sense of why President Xi's assurances that "China will keep its door wide open and not close it" is more rhetoric than reality.

A globalized economy, much more a champion of globalization, would not manipulate the value of its currency as China actively does. Much has been made in political circles about labeling China a "currency manipulator." That has legal implications that go beyond this discussion. Whatever legalities apply, it is nonetheless clear that China consistently intervenes in currency markets to adjust the yuan's value to suit its objectives. For years, Beijing held the yuan's value artificially low in order to promote exports. More recently, it has adopted a more complex set of objectives, of late trying to stem capital outflows by supporting the yuan's value. The change to a more sophisticated set of objectives matters less, however, than that Beijing continues to peg its currency in ways that open economies do not.

Beijing maintains significant restrictions on capital flows into and out of the country, including the ability of foreign financial firms to operate in the country's capital markets. Not only do these policies support Beijing's efforts to control the value of its currency, they also support a top-down government control of the allocation of capital within the economy. It is hardly a surprise that such policies emerge from a government that still aims to control most every aspect of life. But it is hardly a hallmark of an open, globalized economy to exercise such control and especially one that has recently put itself forward as a nation that, in Xi's words, "allows both other countries to access the Chinese market and China itself to integrate with the world."

As indicated, this is hardly a complete picture of ways in which China runs afoul of globalization's requirements. It is nonetheless sufficient to show how China's economic intentions differ from those characterized by Xi. No doubt his audience in Davos wanted to believe that China would step up to the role. All, with some justice, feared that Trump will relinquish America's long-standing leadership position as an advocate of globalization. But even when confronted by great anxiety and uncertainty, few can reasonably swallow Xi's remarks as offering the world a viable substitute to fight for globalization.

*China is merely hedging against a major upheaval of U.S. international economic policy.*

**MANSOOR DAILAMI**
***Senior Advisor, Rock Creek Group, and former Manager, Emerging Global Trends Team, World Bank Group***

With American globalism in retreat, the international community is looking to China to safeguard the post-1945 liberal global order of open trade and finance. Yet China's international status is evolving, with three key factors at play: the management of its ongoing economic transformation from export-led to domestic demand-driven growth; the evolution of U.S. international economic policy, particularly its stance toward China; and the response of other countries to China's pursuit of great power status.

In signaling its global economic priorities and intentions, China has heretofore successfully maintained a careful balance between its developing country status and its ambitions to be a leader in global trade, investment, and monetary affairs. On the former, China has championed major development causes, as prominently exemplified by its advocacy for an action plan on implementation of the United Nations' 2030 Agenda for Sustainable Development at the recent G-20 meeting in Hangzhou. On the latter, the task has been more arduous in the context of a global landscape dominated by Western power and ideology.

For China, the bedrock of its economic strategy since the outset of reforms in 1979 has been the pursuit of national development with domestic stability. This has implied targeting high domestic growth and gradual global integration. One of China's main strategic objectives, following its World Trade Organization accession in 2001, has been expanding its financial sphere of influence through currency internationalization and increased outward investment, in particular through the One Belt, One Road initiative. Solid progress on these fronts (the renminbi was introduced into the International Monetary Fund's SDR basket in October 2016, and is now the fifth most used currency for trade payments) will enhance China's leverage to press ahead with its ambitious economic restructuring and craft a new bilateral equilibrium with the United States. The old equilibrium, anchored on the U.S.-China Strategic and Economic Dialogue, served not only to enhance mutual economic interest through engagement and negotiation, but also to create a buffer against geopolitical rivalry and conflict.

The hard reality of the current global economic power structure is that both China and the United States have considerable bargaining power, both against each other and *vis-à-vis* the rest of the world. No major global economic challenge can be effectively addressed without the active participation of both countries, and the breadth and depth of bilateral economic dependency are so huge that neither country can change the terms of engagement without causing considerable mutual damage. From China's viewpoint, the United States is its largest export market. And U.S. benevolence—accommodating, and indeed encouraging, China's integration into the global economic system in return for China being a responsible stakeholder—has been a major contributing factor in China's development drive and trajectory. From the United States' viewpoint, China is its third-largest export market and a major foreign investor in its Treasury securities. While the size of China's current account surplus has been a source of global payment imbalances, it has narrowed considerably, having fallen from about 10 percent of domestic GDP in 2007 to approximately 2.5 percent currently—below the Treasury-established threshold of 3 percent used as an evaluative criteria for determining whether the United States should consider a trading partner a "currency manipulator."

With the Trump Administration casting uncertainty over the future course of U.S. foreign economic policy, China will have more incentives to hasten the transition to a multipolar world economic order. This will be as much a matter of self-insurance, by creating alternative sources of external demand for China's products, as a matter of strategic cooperation with other aspiring emerging market powers, particularly India and Russia. Seeking collaboration with India and Russia is in part facilitated by the existing institutions of the BRICS annual summit, the New Development Bank, and the Asian Infrastructure Investment Bank. While India and Russia are motivated by their own self-interest to cooperate with the United States on major economic and security issues, both countries share China's dilemma of how best to anticipate and manage sweeping policy changes promised by the new U.S. administration. China will, most likely, be a U.S. target on trade and currency policy revamping. The current trade imbalance between the two countries ($319 billion, equivalent to 1.6 percent of U.S. GDP and 2.8 percent of China's GDP), has been a chief complaint of the new U.S. administration, and a statistic that contributes to its belief that existing multilateral trade deals and alliances are unfair to the United States and hurt its working class in particular. Yet it is difficult, from an economic perspective, to consider the trade imbalance position of the world's largest economy with international reserve currency as a meaningful gauge of its economic strength or weakness.

It falls on China, then, to hedge against a major upheaval of U.S. international economic policy stance, while insisting on the shared benefits of globalism. And it would behoove China, together with the rest of the world, to follow the advice of the Chinese poem, "Honey melons hang on bitter vines; sweet dates grow on thistles and thorns," as quoted by President Xi at this year's World Economic Forum in Davos, Switzerland.

*The views expressed here are the author's and do not necessarily reflect the views of the Rock Creek Group.*

***China's inconvertible capital account and accumulated international reserves smack of "China first."***

**HANNES ANDROSCH**

***Former Finance Minister and Vice-Chancellor of Austria***

China has every reason to be concerned about the anti-globalization tones emanating from the Trump Administration, even if it appears to present an opportunity of assuming global leadership. International trade amounts to about 40 percent of GDP in China as opposed to less than 30 percent for the United States; at a Twitter level of analysis, the Chinese surplus might appear to be job-creating, whereas the U.S. deficit is seen as job-destroying.

And the timing could scarcely be less opportune for the Chinese government. Having experienced average GDP growth rates close on 10 percent for much of the period since the late 1970s, China's growth rate has slowed significantly as its economy begins to experience supply constraints, especially cheap labor. Many commentators project a hard landing for the economy, as housing-sector activity and global trade slow down and a glut in industrial production emerges.

The Chinese government is seeking to cushion this by expanding infrastructural investment and providing fiscal support for investment in advanced technology. This is augmented by a very lax credit policy. However, it is a tightrope act which can only be accomplished by means of exchange controls to prevent a flight of surplus liquid capital and a managed depreciation of the renminbi to stimulate exports.

And therein lies the problem. While China is undoubtedly a champion of globalization in its own interest, its inconvertible capital account and accumulated international reserves smack of "China first." Territorial disputes and a belligerent stance towards Taiwan create an impression of hegemony rather than partnership. It was not one of the (original) twelve Trans-Pacific Partnership members.

But globalization does need to be championed. There is nothing to be gained by turning back the clock to an era of protectionism. We have been there, done that, and if the economic history of the twentieth century provides one clear lesson, it is that protectionism is quick and easy to erect but slow and laborious to dismantle. Worse, it doesn't lead to prosperity for anyone.

For seventy years, the United States has functioned as the global leader in economics, in innovation, and in defense. The dollar was, and is, the global monetary and reserve asset. But this position has been crumbling for some time now due to a combination of economic mismanagement and military misadventure. Should President Trump really live up to his rhetoric, the United States will turn its back even more emphatically on its leadership role.

Although China is a very large country with great future potential, it is in no position at the moment to replace the United States. As an emerging market and at a relatively early stage of development, it will have to focus on its own needs rather than global requirements. The renminbi is still a fledgling currency and will remain so for as long as its liquidity is restricted. But a major hindrance to the leadership role of China is a deep-seated mistrust, based on atrocities inflicted on its own population, repression in Tibet, and hostile behavior towards its neighbors.

As a result, the world will be confronted with a dangerous leadership vacuum, because no other country is capable of filling the role vacated by the United States.

*Let's applaud cautiously.*

**HONGYI LAI**

***Associate Professor, School of Politics and International Relations, University of Nottingham***

China's ambition to sustain an open-trade system is out of self interest. Since China incrementally integrated itself with the world economy in the post-1978 era, it has reaped huge economic benefits. As late as 1978, China's trade-to-GDP ratio was slightly short of 10 percent, but with decisive economic opening in the following decades, it peaked at 66 percent at 2006 and stayed at a high 41 percent in 2015. Between 1978 and 2013, China's imports and exports of goods improved from 27th to the largest in the world. As a result of its opening and economic reform, per capita GDP of China in current prices soared from a meagre US$200 in 1978 to US$7,930 in 2015, a twenty-fold growth in 37 years. In this sense, China has been the largest benefactor of the open trade system among the developing nations. As external demand especially in Europe and the United States slackened in the wake of the financial crisis, China's annual economic growth took a hit, coming down from a rough average of 10 percent during 2001–2010 to 6.7 percent in 2016. So for the sake of its economic well-being, China would be keen to see that the open trade system will be sustained worldwide, especially in European Union and the United States.

Nevertheless, the Chinese vision for open trade is more restricted than what has been long embraced by the United States and the European Union. Despite its greater opening of its telecom, banking, and other services sectors and the automobile sector, China continues to guard closely these sectors against possible foreign competition. The European and U.S. Chambers of Commerce have longed for greater opening of the Chinese market and have lamented the weak protection of intellectual property rights in China. So amidst the tense atmosphere for fair trade (especially under Donald Trump's presidency), China may well need to further open up its markets for foreign investment and step up its legal and administrative crackdowns on IPR infringement in return for its continued access to U.S. markets. China also needs to defuse anti-dumping charges and levies against its steel products in the United States and the European Union.

On the other hand, in the months and even years to come, strong support for an open trade system is in short supply as the United States is unwilling to continue to champion open trade in the same degree as in the past, the United Kingdom is busy with managing the Brexit negotiations and implications, and the European Union is preoccupied with managing security, the refugees issue, and internal unity. Other developing or emerging economies such as India, Russia, Brazil, and South Africa are far smaller than China in their economic size. They are unable (or in some cases unwilling) to promote open trade as does China. Therefore, China's attempt to be a guardian of globalization should be applauded by the rest of the world, though with caution.

*China has abided by all international rules of a globalized market.*

**FRIEDRICH WU**

***Adjunct Associate Professor, S. Rajaratnam School of International Studies, Nanyang Technological University, former Economics Director, Ministry of Trade & Industry, Singapore, and former Chief Economist, DBS Bank***

Since 1979 when China's paramount leader Deng Xiaoping had made the world-transforming decision to abandon once and for all the Maoist semi-autarkic model of self-reliant development and pursue an "Open Door" policy, Beijing's geo-economic goal has remained remarkably consistent, namely, to modernize China's backward economy and catch up with the developed world by integrating the country with the capitalist global economic order, which was created at Bretton Woods immediately after the last world war.

By joining all the major multilateral institutions such as the International Monetary Fund, World Bank, Asian

Development Bank, Bank for International Settlements, World Trade Organization, and more, Beijing has demonstrated that it is a conscientious and scrupulous rule-abider of the international economic and financial architectures forged by the West, which until recently has consistently championed the economic benefits of globalization. China's conduct in these international organizations has been exemplary. It has acted mostly like a "responsible stake-holder" rather than a disrupter; it has not sought to break, or revise, any codified rule, except to demand (rather unsuccessfully) more voting rights commensurate with its status of being the world's second-largest economy. Conversely, none of these institutions have accused China as a spoiler. For example, both the IMF and the BIS argue that the renminbi is not undervalued; while the ADB and World Bank praise China's financial contributions. In its biannual *Trade Policy Review* of China, the WTO repeatedly commends China's reform and market-opening measures. It is interesting to note that even in the inception of the Asian Infrastructure Investment Bank (which the United States and Japan have futilely opposed), Beijing has modelled the bank's governance structure and standards after the World Bank. As China recognizes that it has been a significant beneficiary of the well-established capitalist world economic order, unwavering support for globalization will continue to serve the country's enlightened self-interests well.

The question now is: As the new Donald Trump Administration and other major European powers such as Britain and France are turning their backs to globalization, could or would China step forward to fill the leadership void? Any country that aspires to jump into the vacuum will require the possession of three critical tangible and intangible assets, namely, political will, expertise/experience in managing complex multilateral institutions and forging politically sensitive international agreements, and last but not least, global trust. For China, the maiden speech delivered by President Xi Jinping at the recent World Economic Forum in Davos, Switzerland, clearly conveys Beijing's emerging ambition to lead a coalition of like-minded nations to defend globalization. Realistically, however, China currently still lacks the requisite expertise/experience to spearhead this monumental task. Facing a sharp learning curve, Beijing is working doubly hard to acquire competence in multilateral management through several recent initiatives. Should there be a stream of positive, win-win outcomes flowing from the AIIB, One Belt, One Road initiative, and Regional Comprehensive Economic Partnership, these early successes would inspire higher confidence and trust around the world in China's commitment and prowess as a champion for and defender of globalization. Conversely, a wave of failures would signal that Beijing's ambition to claim global leadership would be premature. A litmus test is awaiting President Xi and his "pro-globalization" team.

***In order to become a champion of globalization, China must do a lot of its own homework.***

**MAREK DABROWSKI**

***Non-Resident Scholar, Bruegel, CASE Fellow, CASE - Center for Social and Economic Research, and Professor, Higher School of Economics, Moscow***

The speech of President Xi Jinping in Davos should not surprise anybody. For the last thirty years, the Chinese economy has benefited enormously from free trade and financial globalization. During this period, it moved up from the group of low-income countries to the upper-middle-income group and eradicated most of its extreme poverty. According to the IMF World Economic Outlook database, when Chinese market reforms started in 1980, country's GDP per capita in purchasing power parity terms was equal to only 2.5 percent of that of the United States. In 2015, it reached the level of 25.6 percent of U.S. GDP per capita in PPP terms. In 2014, China became the largest world economy as estimated in PPP terms.

As an upper-middle-income country, China is even more dependent on the uninterrupted functioning of global markets than it was thirty, twenty, or even ten years ago. A substantial part of the Chinese manufacturing industry has become part of global value chains. Moving up within these chains, Chinese enterprises are interested in increasing imports of new technologies. Foreign direct investment plays an important role in the modernization of the Chinese economy. There is also the expansion of Chinese outward investment going beyond traditional resource-related projects in developing countries. The largest Chinese corporations need access to the world financial markets to continue their expansion.

In the coming decade, China will have to change its growth model, largely due to a forthcoming demographic crisis (a legacy of the one-child policy) and increasing environmental and infrastructure constraints. Again, meeting this challenge will require deepening its access to the global and regional markets for goods and services, capital, and, at some point, labor. China will need even more modern technologies, highly trained specialists, and deeper scientific cooperation with leading research centers of the world.

For all these reasons, it is in the vital interest of China to defend global economic openness and liberal trade regimes against danger from a protectionist backlash. However, in order to become a credible and respected champion of globalization, China must do a lot of its own homework. This includes continuation of its market-oriented economic and institutional reforms, increasing domestic economic, civic, and political freedoms, and building a modern legal system based on the rule of law.

China should restructure and open up its financial sector and liberalize capital account transactions, as well as open other service sectors, remove remaining barriers to foreign capital, and fully enforce intellectual property rights. Changing its monetary policy regime towards inflation targeting and a freely floating exchange rate would be the best counter-argument against continuous accusations of currency manipulation. Finally, China should contribute more to global and regional security, resolve territorial disputes with its neighbors, and refrain from actions which antagonize them.

*Good theater, but hardly the reality outside Swiss ski resort musings.*

**GARY KLEIMAN**
*Senior Partner, Kleiman International Consultants*

For emerging financial market investors, contradictions between Chinese economic policy aims and delivery have strengthened since the 2015 currency and stock market scares. President Xi's Davos globalization declaration, as he awaits another term at the upcoming Party Congress, illustrated a rhetoric and reality disconnect and was likely directed at a domestic audience as well. His hesitant concept interpretation has invited regular clashes with his premier and other senior officials over international-standard issues ranging from state enterprise reform and banking regulation to capital controls and financial services access. Trade both in import and export terms has fallen on a monthly basis, as low-cost labor advantages have eroded absent productivity gains. The pace of foreign direct investment and outward mainland investment has also begun to slow under regulatory and credit limits, as World Trade Organization rules are honored in the breach and headline external outreach programs like One Belt, One Road and the Asian Infrastructure Investment Bank confront developing country commercial and political risks.

Emerging and advanced economies alike insist on greater reciprocity, especially in commodity and other strategic sectors, to remedy current account and ownership share imbalances as they view China's globalization vision as lopsided and long overdue for modernization. President Trump's early tariff and currency manipulator threats may be extreme on their own, but reflect worldwide frustration that international integration promises in recent years, translated with Chinese characteristics at regular bilateral and multilateral exchanges like the G-20 and U.S. Strategic and Economic Dialogue, have either been misunderstood or misappropriated to justify authorities' continued deflection and delay.

President Xi's Davos posturing as a globalization apostle was good theater to score short-term diplomatic points and rally the large Chinese business delegation there, but the financial market disparity with other big emerging economies remains glaring. Stock and bond markets are under-represented and shunned in benchmark indices with official quotas and practical participation limits in place, as cross-border capital restrictions have tightened with reserve outflows. Foreign commercial and investment banks have been confined to minority joint venture positions, and won only tiny market shares prompting exit until recent rule changes holding out more control and expansion prospects. However, executives are hard-pressed to foresee bottom-line results matching sector opening intentions, and Swiss ski resort musings should be met with the same powdery skepticism.

*China über alles!*

**JIM O'NEILL**
*Former Commercial Secretary to the Treasury, United Kingdom, and former Chairman, Asset Management, Goldman Sachs International*

If I may, I would start by suggesting that the style in which the question is put to contributors portrays a fascinating insight into how China is perhaps still so misunderstood. As is generally observed by those who study China closely, China's global economic intentions are to derive benefit from its engagement with the world to help deliver on its internal economic ambition. In this regard, it is important to emphasize that China doesn't really have global economic ambitions *per se,* but any goals it does have are indeed to help serve its domestic promises and hopes.

Despite plenty of noise about China and its economic policy, this decade has so far been remarkably clear, again, for those that follow it closely. Their prime goal is to double the wealth of their (1.3 billion) citizens, by doubling the size of GDP per capita. As we enter the second half of the decade, China is rather well placed to achieve this goal, despite the slower pace of reported overall GDP growth and some challenges about how this rising wealth is being distributed.

Contrary to the tone of much western economic commentary, China's growth performance so far this decade has only been disappointing to those who, rather strangely, expected China to carry on with double-digit real GDP growth forever. This was never likely, and never assumed by the government or those of us who have studied these things closely.

In fact, so far this decade, China is the only one of the four so-called BRIC countries (Brazil, Russia, India, and China) that has grown in line with the rates I assumed they would for this decade back in 2010. China has grown since 2011 by around 7.6 percent, just above the 7.5 percent I assumed over the 2011–2019 period. India, by comparison, even though its recent growth rate is faster, has grown slightly less than I had assumed, and of course, Brazil and Russia's performance has been rather embarrassing for those of us who had greater hopes.

So China is going along the path broadly assumed by those that look closely at these things, including their own policymakers.

A rather important other fact, which amazes me and doesn't get hardly any coverage, is that in recent months, China appears to have conquered its brief flirtation with price deflation. In fact, most recently, the opposite fear has grown as producer prices have been rising at a rate above 5 percent. What happened to all those misplaced comparisons with Japan, which increasingly focused on the risk of deflation in China? That is not to deny China has many considerable economic challenges, ranging from the hugely speculative nature of many of their markets—housing often included—to the bigger problem in my view of giving full citizens' rights to urban migrants. But China is kind of doing okay.

I recently prepared for a speech on the world economy, and looked at how it has performed so far this decade, compared to my expectations back in 2010. The disappointing parts of the world have been Brazil, especially Russia, significantly the euro area, the United States, modestly India, and a couple of other so-called emerging economies have disappointed their potential so far, notably Mexico and Turkey. Despite this reality, the average rate of GDP growth for the world from 2011–2016 has been 3.4 percent, slightly down from the 3.5 percent the previous decade, but above the 3.3 percent the previous two decades. The reason why this has happened is primarily because of China.

It is against this background that one has to consider China's global economic ambition. Here are some more strangely unknown facts. A lot of unaware Western policymakers, their advisors, and leading commentators frequently still focus on China primarily as an exporter. This is behind President Trump's very misplaced stance towards China on trade. Are he or his advisors unaware that China has become the number-one importer for at least seventy countries—more than one-third of the world's nations—and now imports around 10–11 percent of the world's total?

In fact, China will soon overtake the European Union in terms of share of world imports. Beyond the questionable wisdom of tariff-type policies, this is a particularly daft time for western countries to be thinking of China in this regard! Just ask Apple, which sells more of their iPhones into continental China than at home these days.

China wants global institutions to reflect its rising share of global GDP and trade, and the similar rise of other not-so-large emerging economies. But China wants to ensure these institutions suit China's domestic economic goals (is this any different than any other country, in reality?) and in this regard, if western policymakers are unprepared to allow the International Monetary Fund or the World Bank to evolve further, the likes of the Asian Infrastructure Investment Bank or the New Development Bank will become more and more important for China.

One last point. In the preamble to the question, there was reference made to China "devaluing" its currency. This is a very odd comment. At the time of writing, so far in the very few weeks of 2017, the RMB has risen against the dollar, contrary to widespread expectation before the year started. Moreover, while it did fall against the dollar in 2016—the first such decline for over a decade—it actually rose against the Japanese yen and the euro, which means on a trade-weighted basis, the RMB didn't decline, except for brief periods.

The reality is that since China decided to widen the permitted daily trading band in late 2015, and then broaden its currency basket in 2016, the RMB is becoming more of an " adult" currency. This means it will sometimes go up against the dollar, and sometimes go down. Just as with other many currencies, it is pretty hard to know in advance!

*Xi was neither delusional nor cynical.*

**ANDREW DEWIT**
***Professor, School of Economic Policy Studies, Rikkyo University***

President Xi's January 17 address at Davos was certainly not delusional. Nor was it cynical, though it deftly skated over many shortcomings of the Chinese model. But Donald Trump's tweeted threats to, in effect, turn out the Shining City's lights offered Xi the perfect backdrop to spotlight China's expanding global engagement. And Xi smartly seized the moment, delivering a pointed message on the divide between people animated by "petty shrewdness" and those "with vision." In a fifty-minute speech, Xi had heads nodding about the need to work together to cope with climate change, aging, and the displacement caused by the fourth industrial revolution.

Three days later, the world was stunned by a bleak, sixteen-minute American inaugural address that declared a disturbingly isolationist foreign and economic policy of "America First."

Sometimes symbolism is substance. At Davos, Xi plugged the One Belt, One Road initiative he's been building over the past few years. The ambitious project has been costed at perhaps $8 trillion, and aims to link about 70 percent of the global population, over half of global economic output, and about a quarter of global trade. It offers China a potent tool through which to engineer domestic restructuring while exporting its massive over-capacity in steel, cement, and other construction materials. At the same time, the project is helping China build economic alliances and evolve from a rule-taker to a rule-maker.

To be sure, there has been a lot of hand-wringing over Xi's initiative, including within China. A year before Xi's speech at Davos, enthusiasm for the project seemed muted even among the Chinese elite. Several reports speculated that they had experienced "sticker shock" due to the yawning gap between the initiative's costs and funding mechanisms, such as the nascent Asian Infrastructure Investment Bank. Other observers fretted that the roads, ports, and railways might come to resemble foreign aid rather than sound investments. These concerns seemed reasonable in light of a well-publicized academic study that suggested over half of China's past three decades of infrastructure projects cost more than the benefit they delivered.

Yet the One Belt, One Road initiative appears to be gaining serious traction, through expanded trade and investment outside of China itself as well as better overall governance. The May 2017 "Belt and Road Forum for International Cooperation," also announced by Xi, will add to this momentum.

Surely it's worth paying heed to the paradigmatic shift, in economics and international relations, that Xi and the Chinese evidently seek to undertake. Columbia University Professor Jeffrey Sachs is a careful student of China. And in early February, he published an instructive book about building a "smart, fair, and sustainable" American economy on the basis of rebuilding its sadly depleted and climate-vulnerable infrastructure. I for one hope his book gets a close reading in Washington, and helps forge new bridges in an unduly dangerous world. ◆