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China as the Next Champion of Globalisation?

By Friedrich Wu

Synopsis

As the US under Donald Trump and European powers like Britain and France turn their backs on globalisation, could or would China step in to be the next champion of globalisation? As Beijing attempts to demonstrate leadership and garner global trust through initiatives like AIIB and OBOR, a litmus test awaits President Xi Jinping and his "pro-globalisation" team.

Commentary

SINCE 1979 when China's paramount leader Deng Xiaoping 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. This, namely, is to modernise 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 (IMF), World Bank, Asian Development Bank (ADB), Bank for International Settlements (BIS), World Trade Organisation (WTO), etc, 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 globalisation.

China in the Capitalist World Economic Order

China's conduct in these international organisations has been exemplary. It has acted invariably like a "responsible stake-holder" rather than a disruptor; it has not

sought to break, or revise, any codified rule, except to demand (rather unsuccessfully) for more voting rights commensurate with its recent status of being the world's second largest economy. Conversely, none of these institutions have accused China as a spoiler.

For examples, both the IMF and BIS argue that the renminbi is not undervalued; while the ADB and World Bank praise China's financial contributions. In its bi-annual Trade Policy Review of China, WTO repeatedly commends China's reform and market-opening measures.

As China recognises that it has been a significant beneficiary of the well-entrenched capitalist world economic order, unwavering support for globalisation will continue to serve the country's enlightened self-interests well. This is because, even though the Chinese economy is currently embarking on a paradigm shift from a hitherto exports-and-investment-driven growth model to one that relies more on domestic consumption and services, still, several empirical studies have found that sharply higher import tariffs and investment barriers erected by major developed countries would shave 2-3 percentage points off from China's already slower economic growth pace.

The question now is: As the new Donald Trump administration and other major European powers like Britain and France are turning their backs on globalisation, 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.

Limits to Beijing's Emerging Ambition

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 globalisation. However, to lend credibility to its loud declaration of political will, China must be able to demonstrate leadership capability and garner international trust, two conditions that Beijing seems to suffer from some serious deficits.

In terms of trust, according to Pew Research Centre's annual "Global Attitudes Surveys" (of thousands of citizens around the world), the majority of non-Chinese respondents typically views today's China with awe and dubiety rather than affection. Another survey by Edelman, a global communications marketing firm, reveals that only a minority of global consumers expresses trust in companies (and their products) domiciled in China.

Even in development finance, a proud Chinese economic diplomacy for which Beijing has poured in multiple billions of dollars, recent research by AidData at the College of William and Mary finds that among the 300 government officials from 126 emerging economies it has interviewed, the quality of policy advice from Chinese institutions such as the China Development Bank, China Export-Import Bank, and Chinese embassies is rated rather low by them.

In terms of capability, realistically, China currently still lacks the requisite expertise/experience to spearhead the “for-globalisation” campaign. Facing a sharp learning curve, Beijing is toiling doubly hard to acquire competence in multilateral management through several recent initiatives such as the Asian Infrastructure Investment Bank (AIIB), OneBelt,OneRoad (OBOR), and Regional Comprehensive Economic Partnership (RCEP).

China As Champion of Globalisation?

With 57 founding member-countries including Britain, France and Germany (against the futile opposition of the United States and Japan), the slightly over one-year-old AIIB has another 30 countries applying to join. It is already disbursing multi-million-dollar loans to fund power, housing, environment and transportation projects in half a dozen emerging economies.

It is interesting to note that Beijing has modelled AIIB’s governance structure and standards after the World Bank, albeit with less layers of bureaucracy. With Washington’s withdrawal from the Trans-Pacific Partnership, the ASEAN-led but Beijing-dominated RCEP, which comprises 16 countries collectively accounting for 40% of world trade and 30% of global GDP, will have a higher chance of reaching fruition. It will enter into its 17th round of negotiations in March 2017.

As for OBOR, unveiled in 2013, it is off to a slow start and is still at the inception stage. As a high political-risk initiative, it will strenuously test Beijing’s political mettle, not to mention the attendant financial perils.

Should there be a stream of positive, win-win outcomes flowing from the AIIB, OBOR, and RCEP, these early successes would inspire higher confidence and trust around the world in China’s commitment and prowess as a champion and defender of globalisation. 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-globalisation” team in Beijing.

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