Dysfunction/Stagnation in Advanced Economies and China: Challenges and Opportunities

Yide Qiao
Vice Chairman and Secretary General of Shanghai Development Research Foundation

2017 INET Plenary Conference
Edinburgh Scotland, Oct 21–23, 2017
I. Challenges

1. Aftermath of GFC

- Global trade growth declining
- Global economy slowing down

Source: WTO
China export growth declining

Source: China Ministry of Commerce
China economy slowing down

Source: China National Bureau of Statistics
External factors are part of reasons why Chinese economy has been slowed down while it is in transition due to many domestic factors.
Under great fluctuation of cross-border capital flow
2. Protectionism: Reflection of Populism in Economy

- Trade disputes with China increased
  - the largest target of trade remedy investigations
    - China encounters 37 trade remedy investigations in first half of 2017 (28 anti-dumping, 4 countervailing, 5 safeguard measures), totaling 5.3 billion US dollars.

- EU and US refusing the implementation of Article 15
  - Article 15 of “Protocol on the Accession of the People’s Republic of China” allows WTO members in using “alternative country” in anti-dumping investigations against China
    - It should be terminated by December 11, 2016.
    - While in May and July of 2016, EU and US expressed their intention of refusing implementation of the clause.
Tighter examination of China’s M&A

- **U.S:** More strict review and examination of Chinese enterprises from Committee on Foreign Investment in the U.S. (CFIUS), which has postponed some M&A deals in the U.S.

- **Euro:** Recently, France, Germany and Italy also asked the EU to introduce measures to limit foreign investment, especially in China.
More China’s M&A denied

- The data from London investment bank Grisons Peak showed, from the middle of 2015 to the end of 2016, a total of nearly 40 billion US dollars of the Chinese acquisition plan was denied.

- A recent case: the application of an Chinese-funded private equity firm (Canyon Bridge Capital Partners) acquiring U.S Lattice Semiconductor (LSCC) was denied.
Result

✓ ODI of China dramatically declined this year

From Jan to July, 2017, China's ODI totaling 57.2 billion US dollar, dropped by 44.3% from last year's same period.

Misconception: global imbalance

✓ “Global Imbalance=Current Account Imbalance” is misleading

✓ China and other countries with large trade surplus have been strongly criticized, while in fact cross-border capital fluctuations have greater impact on global financial stability.
II. Opportunities

1. Policy Responses to the Challenges

Two “continuations”

- Continuation of open policy
  - President Xi’s speeches in Davos and G20 Summit
    a. Support globalization
    b. China’s determination of continuing open policy
  - More FTAs set up and RCEP promoted
  - State Council’s document No.39 with 22 detailed measures in encouraging more FDI
    E.g.
    a. Negative list of foreign investment in whole China
    b. Encourage FDI in M&A
    c. Reconfirm that Profits, dividends and other investment income of foreign investors, can freely remit in RMB or foreign exchange
• More cautious on capital account opening up
• Patient and serious trade negotiations with U.S. and other countries
• Lawsuit to WTO
  a. On December 12, 2016, China formally proposed lawsuit to the WTO.
  b. New trade regulations was finally reached in EU recently.
     • treating all WTO members equally in determining whether there is an antidumping
     • allowing exceptional investigation in case of "severe market distortions“(e.g. government over-intervention)
✓ Continuation of domestic economic reform

• SOE

• Capital market

• Land system

• Hukou system (population registration)
2. China is moving towards a leading position
   - Became the second largest economy in 2011
   - Largest foreign trader of goods in the world

Main countries’ trade proportion in global trade volume

Source: WTO
- Initiate AIIB and NDB (Brics bank)
- RMB into SDR basket at the end of 2016
- Belt & Road Initiative
III. Summaries

- Dysfuncton → GFC
- Populism ↔ Stagnation
- Challenges to Emerging Market
  - Slowing economic growth
  - Fluctuation of capital flow
  - Protectionism
Challenges can be turned into opportunities if they are dealt correctly.
Mixture of policies carried out.

- open door policy
  - attract more FDI
  - participate global product chain
  - integrated gradually into financial globalization

- domestic economic reform
  - let market play decisive role while government play effective role
  - build up more prosperous, rigorous, and equal society
Some observations beyond economy

- complain about integration of globalization has been dramatically reduced under outside pressure of protectionism/populism

- complacency has risen since outbreak of GFC, which became barriers for further economic and political reforms.
Thank you!