



GLOBALISATION OUTLOOK

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SUMMARY

- Many in the free trade world are calling for the West both to cooperate and compete with China. That's much easier said than done
- Ignore fundamentals; re-write the WTO rule book; or embark on a prolonged war for supremacy – these are the only real choices
- The US political landscape has forces that are pushing for and forces pushing against an early US-China trade deal
- Japan, France and Germany: some setbacks for multilateralism
- New IEA report explains the benefits of free trade but does not address some of the more challenging issues

WHY A US-CHINA TRADE DEAL ULTIMATELY COMES DOWN TO US POLITICS

Both competing and cooperating with China is easy to say but difficult to do

It's been a rollercoaster.

One day there are reports that Presidential summits are cancelled or postponed for lack of progress. The next we hear reports that progress is being made and omens are good. The financial markets fluctuate in response.

Striking a deal will be fiendishly difficult. Commentators glibly state that the US (and the West) should find way both to cooperate and to compete with China. But achieving this will be a challenge.

As we point out in a recent [article](#) published in CityAM, the issues are fundamental. The WTO system and its set of rules were determined by the West and structured for relatively open markets with limited state intervention and well circumscribed state subsidies.

China has chosen a different system of political economy. For China, the state and private enterprise are intimately intertwined. Private enterprise is expected to operate in the national interest. The state brings to bear both private and state-controlled resources to achieve its strategic, geopolitical objectives. Where state subsidies start and end remains fuzzy to say the least. Western companies remain locked out of large swathes of the Chinese economy.

China will no longer bend to a system of Western designed rules it had no hand in writing

When China joined the WTO in 2001, it was willing to bend to Western designed rules as the price for accession. In the wake of its success and a new-found confidence, it will no longer so easily be coerced to follow Western rules that it had no hand in writing. Neither, under President Xi, is it willing to change its system of political economy:

“The US should not request China to change its laws and political and economic system based on its own system”

Jia Jinjing
finance expert at Renmin University in Beijing
[reported the Financial Times](#)

For the US, doing a deal with China therefore comes down to the following:

- Is the US (and eventually the EU) willing to turn a blind eye to these fundamental imbalances in order to avoid escalation?

Ignore the asymmetries; re-write the rule book; or embark on a prolonged dispute.

These are the only real choices

OR

- Is the West willing totally to re-write the WTO rule-book to accommodate the system of political economy of what is now the world's second largest economy?

OR

- Is the US ready to embark on a protracted dispute with China in a war of supremacy between alternative systems of political economy – and broader geopolitical supremacy – hoping that the chosen Chinese system is inherently faulty and will eventually break down?

Just focusing on the short-term, whether the US and China will reach an accommodation on a trade deal comes down to US politics. There are some factors pushing for and many pushing against:

FOR

- President Trump wants to show he is a great dealmaker and wishes to trumpet a successful trade deal
- The 2020 elections are in sight and the President will not wish to risk a weak economy in the run-up to the elections

The US political landscape has forces that push for and forces that push against a US-China trade deal in the short term

AGAINST

- Sinophobia is probably the only sentiment that currently unites both sides of the US political divide
- After his base turned against him with cries of 'wimp' when he ended the government shutdown without securing funding for the wall, the President cannot afford yet again to be painted as a weak president who has capitulated
- In the 2020 elections, the Democrats may well use a weak deal that papers over the cracks against the President as a sell-out of American interests
- Sentiment among many US multinationals has shifted from wanting to do a deal almost at any cost, to demanding reciprocal market access and a more level playing field

How the combination of all these factors will eventually play out is anybody's guess. But we should certainly abandon simplistic suggestions

that there is a deal easily to be done if only President Trump would see sense.

SOME SETBACKS TO MULTILATERALISM

Japan

Japan has withdrawn from the International Whaling Commission (IWC).

While not a trade related body, the IWC is a multilateral institution. All whaling nations have now withdrawn from the body; which does not bode well for the idea of multilateral accommodation taking precedence over narrow national interests.

The two European poster children for multilateralism sign a bilateral deal

France and Germany

To much fanfare, France and Germany signed a bilateral treaty in Aachen.

I have been [critical](#) of the effect of such a treaty, and the EU's general direction, on cohesion among EU Member States. Four days later, an [article](#), former German Minister of Foreign Affairs, Sigmar Gabriel seemed to agree with the assessment, though he does puts it more pithily and elegantly than I possibly could:

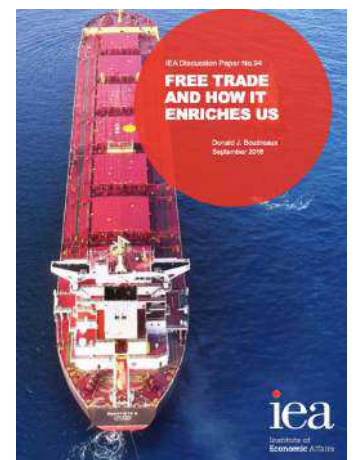
“Any Pole, Italian, Greek, Swiss, or Spanish citizen who reads the text might find it strange that the two European poster children of multilateralism would sign a bilateral deal, excluding everyone else. What ever happened to the principle of sovereignty and equality among all EU member states?”

IEA REPORT NOTABLE AS MUCH BY WHAT IT LEAVES OUT AS BY WHAT IT EXPLAINS

New discussion paper provides an elegant review of classical economic arguments for liberalised trade

The Institute for Economic Affairs (IEA) has just published a [discussion paper](#) on the benefits of free trade.

“Free Trade and How It Enriches Us” is written by academic economist Donald J Boudreaux. It provides an elegant exposition of the economic arguments supporting liberalized trade going back to explaining the theories of Adam



Smith and David Ricardo. It is worth reading to understand the benefits of free trade as explained by classical economic theory.

However, Professor Boudreaux does not address some of the more challenging practical and political questions raised by liberalised trade.

When does 'comparative advantage' start being perceived as 'unfair trade'?

In the section on comparative advantage, one could have done with addressing the question of when does 'comparative advantage' come to be seen as 'unfair trade'. For instance, when do 'low labour costs' as comparative advantage become 'unfair trade' based on unacceptable employment conditions? As in the case of China outlined above, when do Chinese economic structures change from being a source of comparative advantage to becoming unfair trade practices? How far can different attitudes to environmental protection be stretched before they start providing unfair advantage?

The paper also claims that, in spite of temporary dislocations, open trade results in net increase in wealth and net job creation. That may be true (no supporting data are provided). But what of the distributional consequences? What of the human and political consequences to rust belt communities that, in spite of significant, if largely ineffective, domestic policy efforts, remain devastated for decades?

A better trading system can only be built when we look at the issues through the eyes of people's lived experiences

It seems to me that we should by now have moved past arguments based on spreadsheet calculations of net economic benefit and understood that such benefits are unevenly spread and have human and political consequences that are, today, obvious for all to see.

We will not move towards a better and more sustainable global trade system if we simply continue to regurgitate macroeconomic arguments that fail to address the social and political consequences of trade policy at the level of people's lived experiences.

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