



Matthews Asia Perspective

China Takes Leading Role on Global Trade



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About two years ago, I gave a speech about China and globalization. My main point was that China, after Xi Jinping's speech at Davos in January 2017, seemed to be turning into the global champion of free trade, just as the U.S. and Europe were turning their backs on the idea. My views were met with a great deal of skepticism by some. "China isn't serious about globalization" was a common reaction. And yet as I write this today, a headline pops up on TV quoting U.S. President Donald Trump: "EU just as bad as China." In the global war on trade, the U.S. opens up front after front: Mexico, China, the European Union, Canada, etc.

I can't help feeling a little vindicated.

Let me restate my case. First, I am not arguing that China will become a global policeman. I do not see China as a bastion of Manchester Liberalism, unfettered free markets and small government. But in the year I was born, China was a country of just under 800 million people, almost all of whom lived in extreme poverty. Today, it has 1.4 billion people, almost none of whom live in extreme poverty. It is a country where a middle class lifestyle is increasingly the norm. China achieved this by saving, investing and reforming its economic and political systems. It embraced market pricing and saw the state step back from hands-on management of the economy. It opened up to foreign investment and foreign trade. For much of the 1970s and 1980s, China was happy to run a trade and current account deficit as it sucked in capital and goods to build a new economy.

Back then, the vast majority of the population lived in households earning US\$1.90 a day or less; today that percentage is less than 10%.¹

This has been a tremendous achievement, regardless of what you think about the Chinese government's politics. The authorities owe their status and power to their ability in the past to deliver this growth, this incredible revolution in living standards, to the ordinary Chinese citizen. So, when they embrace globalization, capitalism, private enterprise and all it entails—bond markets, stock markets, foreign investment and the freedom for businessmen to make capital allocation decisions—they really embrace it. No, it is not a 100% free market. Where does that exist? No, it won't look exactly like the U.S. Yes, sentiment toward untrammelled economic freedom waxes and wanes in China, as it does in the U.S. (Who can say the current U.S. administration is an unabashed supporter of free trade?) But the Chinese state has major incentives to maintain its pro-trade stance.

In light of the U.S. turning its back on free trade, what should China do? Ideally, ignore the U.S. and open up further, as it will likely do and as we are seeing with the equity and bond markets. It should embrace free trade across the Asian region and with the EU. It should be the global trading partner with the world that the U.S. once was but no longer desires to be. The "One Belt, One Road" initiative is opening up new countries to trade and infrastructure. Freight trains from China, through Central Asia and on to Europe complement the established sea routes through Southeast Asia and East Africa, and the air routes both

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Investments involve risk. Past performance is no guarantee of future results. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation.

¹ Sources: World Bank; China Statistical Yearbook 2015 (compiled by the National Bureau of Statistics of China); Geopolitical Futures calculations

east and west. China is putting itself at the center of global trade; historically, the country in this position has enjoyed economic, social, and artistic progress, no matter the century, nor the religion. Yes, there has been backlash from governments—some may, as the U.S. has chosen, turn their back on the Chinese ideal. Others will embrace it. Vietnam for one is seeing foreign investment soar and its economy modernize as it follows the Chinese reform path.

Who knows if the U.S.'s current aversion to trade will continue? But we have reached a pivot in history where it is no longer the loudest pro-trade voice or

pro-globalization voice. Nor has the EU picked up the mantle. That role has fallen to China. The world economy should benefit from having a powerful free-trade voice, as it can help drive efficiencies, increase the living standards of the world's poorest regions and spur better international relations. China's role remains an important reason to invest in the growth of Asia, as it continues to be not only the biggest incremental contributor to global economic activity but also the world's major proponent of international economic cooperation and development.

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