Why the US and EU are demanding that China open up its markets

ABDULLAH SHIBLI

HAPPENINGS in China always make the headlines around the globe. Two recent events, one in the political arena and the other in the economic policy domain, will have profound, long-term impacts not only in China but also geopolitically. The first event happened in Beijing. President Xi Jinping secured a lifetime job by having the National People's Congress endorse his desire to continue ruling beyond the two-term limit set by the Constitution. The Congress thus waved him in to rule as the "President for Life", a rare event in the 21st century. The second event happened a few months prior to that, in November last year, when the United States formally informed the World Trade Organization (WTO) office in Geneva that it opposes granting China market economy status, and the implication of the US stance could be significant.

China is the world's second largest economy. During the 2016 presidential elections, candidate Donald Trump promised to bring China to play by the book. The US government as well as the European Union have for a long time drawn global attention to China's trade and regulatory practices. China often sells products overseas at a price that is below the cost of production, which could be counted as a generous move. However, the practice, known as "dumping", has led many countries to cry foul, and has driven some industries in the US and EU out of business. A few years ago, EU imposed tariffs on solar panels and steel imports from China, but the US was reluctant for a while hoping to leverage China's influence with North Korea. It now needs to be seen whether the recently announced tariffs on US imports of steel and aluminium will be followed by a period of cooling off or further escalation of tension.

EU had already imposed import duties of between 13.2 percent and 73.7 percent on steel imports from China. Some pro-EU politicians in the UK blamed the Brexit vote on Britain's inability to impose tariffs on Chinese steel products in order to save British jobs in the steel industry. When EU finally imposed a tariff in October 2016, it was considered by some in Britain as "too little, too late".

Thus, in 2018, China's growth engine—based on trade, regulatory controls, and "China First" approach—faces some strong headwinds, and these are coming not only from EU and US, but also from its trading partners in Asia and Africa. In another development, last week the Bank of International Settlement (BIS) warned that "financial bust may be looming" in China given the slow progress in reducing its debt to GDP ratio.

China-watchers note that China is in a state of transition. But, not always in a good way. "The partially institutionalised political norms of China's reform era are buckling. Beijing is steadily sliding away from collective authoritarian rule by Chinese Communist Party (CCP) elite towards a more personalised variant wielded by President Xi Jinping alone," notes one analyst. China also saw its growth rate drop to 6.5 percent. Its provincial governors last year admitted that they had "manipulated data" frequently in the past. The local leaders were given GDP growth targets, and this led to a situation where some of the provinces were fabricating economic growth numbers to comply with the central authorities. There is scepticism now among China-watchers about whether China can sustain the earlier-seen growth momentum.

On the positive side, President Xi Jinping's return for his bid to consolidate power has offered to shake up the state apparatus, and the patronage system by tackling corruption, bureaucratic inertia, and risky lending practices; he has indicated in the past that he intends to revamp the bloated state sector and open its markets wider for foreign capital. Mao Shengyong, a government spokesperson, said that China would work with the US on nurturing global economic growth and addressing trade disputes. "The trade imbalances between China and the US are a result of market competition."

Even before it countered China with a tit-for-tat round of tariffs, the western world has been very wary of China. Financial Times (FT) of London ran a story critical of China's economic policy entitled "China's protectionism comes home to roost" on January 3, 2018. FT warned China about its protectionist policy and singled out the information technology and finance sectors, and sharply criticised the country for creating the "great firewall of China" which constitutes the world's biggest non-tariff trade barrier.

A Chinese woman adjusts a Chinese national flag next to US national flags before a Strategic Dialogue expanded meeting in Beijing, July 10, 2014. REUTERS FILE PHOTO

According to an Organisation for Economic Co-operation and Development report measuring foreign investment restrictiveness, China ranked as the second most closed economy out of 58 surveyed and is significantly behind other major emerging economies: Brazil, India, Mexico, and South Africa.

Similarly, a survey conducted by the American Chamber of Commerce in China, in partnership with Bain & Company, reported that eight in 10 foreign companies feel less welcome than in the past, and more than 60 percent have little or no confidence that China is committed to opening its markets further in the next three years. "Globalization doesn't just mean exporting and buying up foreign assets, but also making sure that Chinese workers, private companies, farmers and consumers benefit from dynamic, open markets for goods and services," said William Zarit, Chairman of the American Chamber of Commerce in China.

David Dollar, a Brookings Institution senior fellow and former US Treasury emissary to China from 2009 to 2013, says Beijing is partially opening manufacturing, but car manufacturers such as Ford and General Motors have to operate through "awkward" 50-50 joint ventures with local partners. "Most of the modern services sectors such as finance, telecommunications, media, and logistics are almost completely closed to foreign investment," Dollar says, adding the US needs to play "responsible hardball" against China.

In the past, US tech companies have spent billions of dollars trying to break into the Chinese consumer market, but have been blocked, forced into joint ventures, faced censorship, or ordered to transfer secret technology to China. Now the US has started to push back, warning countries of the developing world to "carefully consider the terms of those agreements (with China) and not forfeit their sovereignty," the former US Secretary of State Rex Tillerson said. African business leaders are also being critical of Chinese practices.

Finally, China has not been successful in persuading either the US or the EU that it is, in fact, a "market economy", doing almost nothing to ensure EU or US companies actually gain market access to China without endless conditions and habitual delays. "China continually promises open market access for EU and US exporters, but then frustrates them in practice, demands investment takes place through joint ventures, often with SOEs, and routinely insists upon technology transfer," according to an article by Dr Douglas Bullock in Forbes magazine.

China promised to be a market economy in 15 years in the WTO accession agreement. Under US law, a country is considered a non-market economy (NME) if the administering authority determines that the foreign country's economy does not operate on market principles of cost or pricing structures, so that sales in the foreign country do not reflect the fair value of the merchandise. If WTO adjudicates in favour of the US, the outcome could spell disaster for some of China's exports.

Dr Abdullah Shibli is an economist and a Senior Research Fellow at the International Sustainable Development Institute (ISDI), a think tank based in Boston, USA.

BANGLADESH'S ELIGIBILITY FOR GRADUATION FROM LDC

Facing the challenges ahead

MD ABDUL HANNAN

ON March 16, at the UN, the Committee for Development Policy (CDP) in its First Triennial Assessment meeting cleared Bangladesh's eligibility for graduation to a developing country. After our independence in 1971, what could be more glorious than this announcement, since Bangladesh was once despised by Henry Kissinger as a "bottomless basket." Now, this is the moment of truth, rejoice and celebration—Kissinger was wrong. It's indeed a matter of pride and self-esteem for the nation.

In the recent months, there were mixed reactions from the intelligentsia, think tanks, civil society members and professionals about Bangladesh's capability to surmount the challenges ahead.

Unquestionably, Bangladesh will lose benefits of LDCs in terms of DFQF (Duty-free, quota-free) market access, non-compliance of TRIPS (Trade-Related Aspects of Intellectual Property Rights) flexibilities and patent protection for pharma products. Export subsidy will have to be stopped. With the loss of all benefits upon graduation, Bangladesh will definitely face challenges in terms of competitiveness in the global market. However, under WTO, during the transition phase, Bangladesh will continue enjoying preferential market access, longer transition periods to implement WTO agreements, flexibilities regarding WTO rules, and priority in receiving technical assistance.

Interestingly, Bangladesh will lose benefits only after CDP's Second Triennial Assessment in March 2021. Then, it will get a transition time of three years, meaning Bangladesh will continue with all benefits till 2024. EU—the largest trading bloc for Bangladesh will allow another three years (till 2027). Thus, Bangladesh will have 5-8 years to be fully prepared to brave the challenges.

Traditionally, Bangladesh with other LDCs, have been claiming "supply side constraints"—pertaining to infrastructure, sea and land ports, technology, capacity building, etc.—as the main obstacles to its competitiveness and sought 100 percent DFQF, more FDI (foreign direct investment), and technology transfer for export promotion and creating jobs for economic development. The US, still the biggest single market for Bangladesh, was not pleased about this. Bangladesh was, however, not deterred but exploited benefits of TRIPS flexibilities and particularly DFQF offers (with varied Rules of Origin) of other countries, trading blocs and succeeded to triple its export (USD 35 billion) within a decade.

Most importantly, Bangladesh has been fortunate with its top political leadership under Prime Minister Sheikh Hasina who formulated Vision 2021.

Graduation will not necessarily pose only challenges. It also offers benefits. It will immediately offer benefits of credit worthiness, more potential for foreign investment, reduce volatility for flagship project financing, increased investment, job creation and revenue through protection of intellectual property, and above all, pave the way for joining the club of developed economies by implementing Vision 2041.

As a developing country, Bangladesh will still have more time to open up its economy like other developing countries. But, the challenge is its capability to compete with developing countries in terms of market access, attracting investment, infrastructure and skill development. However, there has always been an opportunity to reach out to other countries bilaterally or through WTO Committees to explain the difficulties pertaining to graduation and seek dispensation.

PHOTO: AHNAF SABER/WIKIMEDIA COMMONS

Bangladesh should actively consider implementing its commitments pledged through Trade Policy Review mechanism in WTO (though they are not compulsory) for its own benefit by improving infrastructure, automation, skills, and bringing legal and administrative reforms. The Trade Facilitation Agreement, which Bangladesh has ratified, is also an area to look into for proper implementation.

Simply put, Bangladesh needs to improve the infrastructure and services of its sea ports, have at least one or two operational deep sea ports by 2021, diversify its export basket and market, seek to attract more domestic and foreign investment, properly implement "one step service", etc. Bangladesh still has some leverage to maintain its competitiveness, but it immediately needs to minimise its cost of production and transportation time and cost by improving various aspects of its supply chain.

To overcome the potential challenges, the government has already assigned the External Economic Resources Division to carry out impact assessment and the General Economic Division (GED) of Planning Commission to map and prepare a plan of action, in consultation with all the ministries, on a priority basis. The Ministry of Commerce is also conducting its own assessment, like it did in the case of preparing for the implementation of SDGs.

Most importantly, the business community led by the FBCCI is accustomed to conducting their own impact assessments. Think tanks have also been preparing "policy briefs" for the government on issues that concern our economic interests. Taken together, these things will definitely strengthen the government's capacity to understand the enormity of the challenges at hand and address them appropriately through policy and strategies within the limited transition period.

As Abul Kalam Azad, the Principal Coordinator for Sustainable Development Goals (SDG) Affairs in the Prime Minister's Office assured the business community in a meeting on the graduation, hosted by FBBCI on March 15, 2018, that the government will do everything possible to overcome the challenges. "If Bangladesh could clinch independence in nine months, the government will also succeed (in facing the challenges) within the next 5-7 years," he said. Making Vision 2021 a reality is a testimony of that claim.

Md Abdul Hannan is a former Bangladesh Ambassador to the UN (Geneva), UK and Oman.

NORTH SOUTH UNIVERSITY
Center of Excellence in Higher Education

- World class research facilities
- High career opportunity
- Special scholarship opportunity
- Progressive curriculum and globally recognized degrees
- Industry- focused specialization in multidisciplinary fields
- State-of-the-art educational infrastructure & resources

Graduate
Admission Summer 2018

Graduate Programs
- Master of Business Administration (MBA)
- Executive Master of Business Administration (EMBA)
- MS in Economics
- MS in Computer Science and Engineering (MSCSE)
- MS in Electronics and Telecommunication Engineering (MSETE)
- MS in Electrical and Electronic Engineering (MSEEE)
- MA in English - TESOL, Linguistics, Literature
- MS in Biotechnology
- MS in Environmental Science and Management
- MPharm in Pharmaceutical Technology and Biopharmaceutics (MPharm PTB)
- MPharm in Pharmacology and Clinical Pharmacy (MPharm PCP)
- Master of Public Health (MPH)
- Executive Master of Public Health (EMPH)
- Master of Laws (LL.M.)

OGS Office of Graduate Studies
North South University
Bashundhara, Dhaka 1229
Tel: +880 2 55668200 (Ext: 1062), 01614271717
MBA: 01712181306, CSC: 01767511161
PH : 01747439378, ESM: 01747013854,
Email: graduate.admissions@northsouth.edu
Open from: 9:00 AM - 9:00 PM (week days)
Web: www.northsouth.edu

APPLY ONLINE
http//apply.northsouth.edu

Admission Test
06 April 2018
Friday, 10:00 am
Application Deadline
04 April 2018