

Davos World Economic Forum

Bert Hofman

China can provide leadership for global economy

This week, policymakers, business leaders and top academics are gathering for the annual World Economic Forum in Davos, Switzerland. At this year's meeting, under the umbrella of "responsive and responsible leadership", participants will debate rising income inequality, economic anxiety, growing protectionism and the increasing opposition to globalization and the openness that has been a major engine of growth in the past decades, but which has also left large groups of people behind. The meeting takes place against a backdrop of elevated economic uncertainty fueled by policy uncertainty in the wake of political changes in 2016 and this year's elections in Germany, France, and other countries, the economies of which together account for some 30 percent of global GDP.

In its recent Global Economic Prospects 2017, the World Bank estimates that global growth slowed in 2016 to a post-crisis low of 2.3 percent, as global trade stalled, investment slowed, and policy uncertainty spiked. A moderate recovery is projected for 2017, with global growth forecast to increase to 2.7 percent, mainly driven by emerging markets and developing economies, in particular the large commodity exporters such as Russia and Brazil.

China, with a projected growth rate of 6.5 percent for 2017, is set to remain one of the engines of global growth in 2017. Although its growth is projected to further

moderate 6.3 percent in 2018-19, reflecting soft external demand, uncertainty about global trade prospects, and slower private investment. Macroeconomic policies are expected to continue supporting activity to help smooth the adjustment of output in overcapacity sectors. Policy support is likely to come increasingly from the fiscal side, as government action to reduce the risks of rising leverage take hold. Rebalancing from industry to services, and from investment to consumption, is expected to moderate, as the continued fiscal stimulus supports industry and the lower wage growth of recent months is being reflected in slower consumption growth.

Global growth may yet surprise on the upside, especially if a fiscal stimulus in the United States were to ensue, but downside risks associated with policy uncertainty, protectionist pressures, and the risk of financial market disruptions dominate global prospects.

Policy uncertainty could further slow investment. Investment growth in emerging markets and developing economies has slowed sharply since 2010. This slowdown has been most pronounced in the largest emerging markets and commodity-exporting countries, but has now spread to the majority of these economies. Slowing investment growth reflects a range of obstacles holding back investment: terms-of-trade shocks, slowing foreign direct investment inflows, private

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debt burdens and rising political risk. Sluggish investment today sets back future growth by slowing capital accumulation and productivity growth. Therefore, the cyclical and structural policies to boost investment growth agreed at the G20 Summit in Hangzhou, East China's Zhejiang province, last year remain highly relevant today.

Rising protectionist sentiments could undermine the growth in trade — an engine of growth in the past that has been sputtering in recent years. Global trade growth in 2016 recorded its weakest performance since the global financial crisis. The structural forces at work are of concern, and they include a slower pace of global value chain integration and increasing trade liberalization headwinds. Maturing global value chains also contributed to lower trade generated for each increase in global GDP. This trend, which had

already been observed prior to the global financial crisis, has intensified in recent years. Among major advanced economies, the slowdown in global value chain participation is particularly visible in the United States and Japan. Among the emerging markets and developing economies, China's more mature domestic intermediate production has also contributed in lowering trade intensity of growth. At the same time, most emerging markets and developing economies still have large untapped potential to move up the value chain, by shifting to more complex and higher domestic value-added products, but only if the global trade environment allows for it.

New trade restrictions reached a post-crisis high in 2016. In an environment of weak global trade, stagnant real income gains in major advanced economies, and marked currency movements between major reserve currencies, protectionism has been slowly rising. For example, in 2016, G20 countries have taken more trade-restrictive measures than trade-facilitating ones. Anti-dumping measures, countervailing duties, and safeguards have been the most commonly used instruments in advanced economies, while emerging markets and developing economies have used a broader set of restrictive measures, including import tariffs and export taxes. Without violating current agreements, World Trade Organization members could triple import tariffs, which would lead to a 10 per-

cent drop in world trade, and large welfare losses for the world. Undoing existing trade agreements amid increased protectionism would greatly exacerbate those welfare losses.

Davos is an opportunity to discuss how to turn the tide that is rising against globalization and trade, and China, which is represented at the highest levels of government, can play an important role. China has not only been a major beneficiary of openness and globalization in the past three decades, but in recent years has played a leading role in international trade and development, and a growing role in the global institutions that underpin these. There is much that countries themselves can do to ensure that gains from trade are better shared, and to strengthen support for openness and trade — including improving social safety nets, more investment in people, and active labor market policies that help those working in declining industries to move to more productive occupations. At this point in time, more is needed. Perhaps most important is strong leadership to sustain the international economic system that has benefited the world so much in the past, and to adapt it to current needs and realities. China is among the few countries that is in a position to provide such leadership in today's world.

The author is the World Bank country director for China.

True value is in shared outlook of openness



Fu Jing

The author is deputy chief of China Daily European Bureau fujing@chinadaily.com.cn

Western politicians often talk of shared values when seeking to convey the foundations for their partnerships. When they meet Chinese leaders, such an expression is rarely used. However, Swiss President Doris Leuthard said openness is a "shared value" of China and Switzerland, ahead of President Xi Jinping's four-day state visit to Switzerland that began on Sunday.

And it is with this shared value that the two countries will explore the upgrading of their free trade partnership by further lifting trade barriers and waiving tariffs.

Leuthard's attitude should offer food for thought for those international businesspersons and politicians gathering in the tiny town of Davos to discuss global politics, the world economy and social issues at the 47th World Economic Forum annual meeting on Tuesday.

For years, China has been a focus of attention at the forum: warmly welcomed when the economic situation seems bleak and other countries are soliciting its support, or criticized when the global economy seems to be doing well.

When President Xi delivers his opening address at the annual meeting, the questions posed by the participants will mainly be how will China play a decisive role in solving the pressing challenges the world faces.

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During the interviews with leading opinion leaders worldwide in recent days, they have all shown how curious they are about what will be in Xi's portfolio of proposals for reshaping global governance and tackling the rising trend of protectionism and isolationism.

In recent years, especially after Xi became China's top leader, this country has shown an ever stronger desire to engage with the international community and make positive contributions to shape better global governance.

No other country can compete with China in terms of offering new initiatives which are characterized by inclusiveness and openness, such as the Belt and Road Initiative, the Asian Infrastructure Investment Bank and the Silk Road Fund.

The Silk Road Economic Belt and 21st Century Maritime Silk Road not only represent China's further opening-up, but also greater regional and intercontinental connectivity. And this connectivity through infrastructure is also increasing the connections between different cultures and bringing people together.

Such a performance sheet is unfolding in contrast to the situation in some major Western countries where forces looking to roll back globalization and advocating exclusion are on the rise.

Western politicians should realize that openness and inclusiveness offer the greatest benefits.

For years, China has benefited from globalization by attracting global human resources, capital, knowledge and technology and in doing so its partners have also benefited.

But the key factor constraining the further development of these partnerships is the difference in ideology that means Western countries still talk of their shared values rather than values that can be shared by all.

President Xi will be elaborating on his proposal that all countries strive to establish a community of common destiny for all humankind during his trip to Switzerland, this is a vision of inclusiveness and openness that China hopes all countries can share.

It is time for countries to realize the real value is in sharing the fruits of development so all can enjoy them.

As Xi wrote in a signed article published ahead of his visit, citing the well-known Swiss poet and Nobel laureate Carl Spitteler, there is no greater happiness than having friends who share the same outlook and destiny.

Robert Lawrence Kuhn

Balance development, globalization

By curious coincidence the World Economic Forum, which upholds the international benefits of globalization, is taking place at the same time as the presidential inauguration of Donald Trump, who promotes the domestic benefits of anti-globalization.

Today, it is President Xi Jinping, who wears the mantle of globalization leadership. Addressing the United Nations in 2015, Xi reaffirmed China's commitment to being a reliable partner in bringing about a more peaceful and progressive world through globalization in all forms, stressing common development through economic openness and shared prosperity.

This week, in an appearance of historic significance, President Xi will be China's first head of state to attend the World Economic Forum. Jiang Jianguo, minister of China's State Council Information Office, stated that Xi's mission in Davos is to promote development, cooperation and economic globalization in order to construct "a human community with a shared destiny".

"With the rise of populism, protectionism, and nativism, the world has come to a historic crossroad where one road leads to war, poverty, confrontation and domination while the other road leads to peace, development, cooperation and

win-win solutions," Jiang said.

Leadership roles, remarkably, have reversed. For decades, the US was the great promoter of globalism while China was still closed to the outside world. China began changing — opening up — in the late 1970s, and in recent years, especially after the financial crisis of 2008/09, the US and parts of Europe have experienced such increasingly skewed wealth concentrations that many middle-class working families feel left behind by globalization and want to turn their backs on it.

But while protectionism in the form of tariffs or other disincentives to manufacture abroad can seem to provide or protect domestic jobs (usually mid-level factory jobs), it is at best a short-term fix. Because prices for protected goods must inevitably rise, protectionism is actually like a "tax" that all citizens pay in proportion to their purchases of protected goods. Moreover, the "tax" is regressive in that it skews to those who have lower incomes (whose purchases of protected goods constitute a higher

proportion of their disposable incomes). Thus, the many subsidize the few.

On its surface, this tradeoff can seem a rational choice for national policy. There is nothing intrinsically wrong with the many subsidizing the few. The problem is that, over time, in an interconnected world, protectionism suboptimizes economic growth and undermines a country's relative capacity to build national wealth.

Globalization certainly facilitates devel-

oping countries whose workers are willing to work for low wages. That's one reason why China has been the biggest beneficiary of globalization. While China has now become less dependent on global trade — as China's economy has grown, workers' wages have risen and domestic markets have expanded — China still champions globalization for its own continuing



LI MIN / CHINA DAILY

Wang Yiwei

Xi to explain economic priorities in Davos

During his visit to Switzerland from Sunday to Wednesday, President Xi Jinping will attend the World Economic Forum annual meeting in Davos and deliver a speech at the United Nations main office in Geneva. The Davos meeting, usually attended by China's premier and vice-president, will witness for the first time a keynote address by China's head of state. Xi is expected to explicitly explain his views on the global economic landscape and China's solutions to global problems at the gathering.

Xi's trip, the first state visit by a Chinese leader this year, comes at a time of uncertainties amid rising anti-globalization, protectionism, isolationism and populism even in economies such as the United States and the European Union that have for decades advocated free trade. The election of Donald Trump as US president and the rise of anti-establishment

forces in Germany and France, the EU's heartland, do not bode well for the already wobbly global economic growth.

In sharp contrast to the gloomy prospects of the world economy and international relations, Beijing remains committed to globalization. And Xi's presence at the Davos meeting is a reflection of China's determination to press ahead with the multilateral economic system. His presence at Davos also highlights the fact that China is willing and has the capability to set globalization on a more synergistic, inclusive course.

In May, China will hold a high-level international cooperation forum on the Belt and Road Initiative that focuses on global recovery, re-balancing, renovation and reconnection in response to rising concerns over global governance. Proposed in 2013 and unlike traditional globalization backed by tariff reduction, the Belt and

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Road Initiative (the Silk Road Economic Belt and 21st Century Maritime Silk Road) is aimed at improving connectivity between regions and boosting global growth, through infrastructure construction among other things.

The Belt and Road Initiative, which focuses on Eurasian infrastructure and better land and sea connectivity, is expected to elevate 3 billion more people to the middle class by 2050 and help increase global trade by \$2.5 tril-

lion in the next decade.

The initiative has good reasons to achieve its targets, because every \$1 increase in infrastructure investment in developing economies can raise their imports by \$0.7, half of which comes from developed countries, as Justin Yifu Lin, former vice-president of World Bank, has said. In other words, the West, too, can benefit from the increase in exports as the Belt and Road Initiative stimulates global infrastructure investment.

Xi's visit to Switzerland will also witness the signing of a memorandum of understanding on the Belt and Road Initiative between China and the World Health Organization in Geneva, giving fresh impetus to the Beijing-proposed project. Cooperative deals with similar focus have been signed between China and the UN, boosting the international support for the initiative's security and long-

term development.

For example, the UN resolution on Afghanistan passed two months ago specifically extended the world body's support for the Belt and Road Initiative, and encouraged all member states to take part in it to restore the war-torn country's economy.

That the Belt and Road Initiative is gaining wider support reflects Xi's foresight that it will promote deeper and more balanced regional cooperation, and allow more people, especially in the South, to enjoy the dividends of economic growth. With China remaining a trustworthy engine of global growth, the countries along the initiative's routes can expect better benefits from China's renewed endorsement of globalization.

The author is a professor at Renmin University of China and a senior research fellow at the Center for China and Globalization in Beijing.