

Global Economy

A note of optimism for economic prospects

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Policy recipe offered by Xi at import expo will help to solve trade disputes and rebalance China's economy.

The China International Import Expo started in Shanghai on Nov 5, and the inaugural event, announced more than a year ago, stands in stark contrast to the escalated trade tension between China and the United States. The expo has attracted foreign companies from 130 countries to Shanghai, China's largest city, with the goal of finding potential buyers and developing prospective markets. Indeed, this import-themed expo is the first one for China at the national level, establishing a new platform for other countries' goods and services to enter the Chinese market. There is no doubt the expo will lead to numerous deals between Chinese and foreign companies.

At the opening of the expo, President Xi Jinping delivered the keynote speech, in which he repeated China's stance against protectionism and called for more multilateral cooperation. In his speech, Xi discussed at length the benefits of an open international economy and said China is pursuing "a new round of high-standard opening-up" to broaden market access to the rest of the world.

Xi also highlighted a number of initiatives to further the opening-up, including boosting imports by further tearing down tariff and nontariff barriers; opening more domestic sectors to foreign investment such as finance, telecommunications, education, healthcare and the culture industry; continuously improving China's business environment while enhancing protection of intellectual property; using pilot zones to experiment with new opening-up policies; and pressing ahead with multilateral cooperation through international institutions such as the World Trade Organization and free-trade agreements with important trade partners.

Xi's remarks sound a note of optimism for China's long-term economic prospects. The policy recipe suggested by Xi will not only help to solve trade disputes with the US but also point out the right way to rebalance China's economy.

In the previous trade negotiations with China, the US raised a number of demands, chief among which were better protection of intellectual property and concerns over China's industrial policies. For the former, the US claims there exist prevalent forced technique transfers in joint ventures between US invested companies and Chinese companies. For the latter, the US complains that China's industrial policy has rendered unfair advantages to Chinese companies over foreign companies.

We would like to argue that these two main trade disputes with the US side are in essence market-access related issues. Most cases of "forced technique transfer" as claimed by the US are commercial deals between Chinese and foreign partners in joint ventures, which occurred on a voluntary basis. That being said, if China's authorities are willing to allow foreign investors to become the majority stakeholders in more sectors, the fear of "forced technique transfer" will automatically evaporate.

The broadening of market access to foreign investors can also lessen other countries' concerns about China's industrial policy. President Xi's remarks emphasized that foreign investors will be fairly treated as domestic enterprises. This implies that foreign companies in China will be eligible for the benefits of national industrial policy as well if further market-opening efforts bring in more foreign investors.

Creating Opportunities

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Xi's remarks put service trade and investment in an important position. In his speech, Xi projected that China's goods and services imports will respectively reach \$30 trillion (26 trillion euros; £23 trillion) and \$10 trillion over the next 15 years. Given that the current ratio of goods and services imports stands at around 4:1, Xi's projection implies even faster growth for services trade than goods trade over the next 15 years.

Moreover, in mentioning the new market-opening efforts, President Xi particularly flagged the authorities' intentions to increase foreign ownership in education and healthcare sectors, both of which are typical service sectors.

The further opening-up in domestic service sectors, as well as the boost of service trade, will have far-reaching implications for China's economic rebalancing.

China's manufacturing sector has already demonstrated its competitiveness in the global market. Comparatively, China's services sector hasn't been up to the level of its manufacturing sector, which is evidenced by China's gaping deficit in services trade. On the flip side, it means much room exists for China's services sector to further increase productivity. The only way to achieve this goal is to introduce more competition from foreign peers. We expect that such a process will benefit China's economy in the long run by increasing the aggregate productivity of the sector. China's services sector will become as competitive as its manufacturing sector in the future.

In the meantime, the opening of the domestic services sector will also provide more choices for Chinese consumers. It will help the economy shift toward domestic consumption to achieve a healthy rebalancing.

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