Daniel Gros: Are China's trade practices really unfair?

Even if China's non-tariff barriers remain high, they are lower than in the past. In fact, current complaints about unfair Chinese trade practices are actually complaints about the mismatch between the slow pace of economic opening and the very fast pace of modernisation, **writes CEPS Director, Daniel Gros**

Daniel Gros

A temporary trade truce

The temporary truce reached by US President Donald Trump and his Chinese counterpart Xi Jinping at the just-concluded G20 meeting in Buenos Aires should give both sides some time to reflect on the issues in question. And the most fundamental of those issues is whether American grievances against China – shared by many of the advanced economies – are justified.

To be sure, unilateral US measures are indefensible under global trading rules. But some pushback conceivably could be warranted if the advanced economies – which have already created an informal contact group of "China losers," including representatives of the European Union, Japan, and the United States – are right that China has been engaging in unfair trading practices. For the US, the biggest concern seems to be so-called forced technology transfer – that is, the requirement that foreign companies share their intellectual property with a domestic "partner" in order to gain access to the Chinese market.

But this is a misnomer, at best, because companies that do not want to share their technology can always choose not to invest in China. Europe's complaints – or, more specifically, the complaints of over 1,600 European companies – are summarized in a new report issued by the European Union Chamber of Commerce in China. But, interestingly, few of those complaints are about China's trading practices per se, at least in the narrow sense.

China and the WTO

Tariffs, for example, are not cited. With its accession to the World Trade Organization in 2001, China was forced to reduce its tariff protections by one-half. In the ensuing years, the average tariff rate applied by China has continued to fall and now stands at less than 4%, though China does maintain an unusually high number of tariff peaks (that is, high tariffs for very limited categories of product). Of course, tariffs are far from the only way to create obstacles to trade. Indeed, in many ways, tariffs are yesterday's problem – at least they were until Trump dusted them off as a weapon for his trade war. But when it comes to non-tariff barriers, China's record also does not seem as problematic as is claimed.

To be sure, it is difficult to measure the overall importance of non-tariff barriers to trade, because they can take so many forms. But, according to the independent Global Trade Alert observatory, since 2008, China has introduced only 25 measures (referred to as "state interventions") per year, on average, that might restrict trade with the US.

Meanwhile, China enacted about the same number of new measures that liberalize trade with the US. Overall, then, China has not become more protectionist against the US; on the contrary, the opening process is continuing, albeit very slowly. By contrast, the US has enacted between 80 and 100 restrictive measures against China every year, and far fewer liberalizing measures.

> *Other indicators confirm China's gradual move toward liberalization*

Other indicators confirm China's gradual move toward liberalization. This is the case even for foreign investment – an issue about which both US and European companies complain. Although China remains far less open to foreign direct investment than most advanced economies, the OECD's composite indicator shows that there has been continuous, albeit sluggish, improvement. In short, even if China's non-tariff barriers (both formal and informal) remain high, they are lower than in the past. So, why are the US, Europe, and Japan pushing back now?

The answer lies in the increased competitiveness of Chinese producers. When Western companies had a near-monopoly on know-how and technology, their competitive edge more than compensated for distortions created by Chinese barriers to trade and investment. But, as Chinese enterprises have become increasingly serious competitors in their own right, Western countries' capacity to bear the extra costs of non-tariff barriers has diminished.

Should China rethink its stance?

Complaints about unfair Chinese trade practices, therefore, are actually complaints about the mismatch between the slow pace of economic opening and the very fast pace of modernization. The competitiveness gap between China and the OECD countries is closing much faster than the regulatory environment is converging. In fact, per capita GDP – and thus productivity – in a number of Chinese provinces with a combined population of over 100 million is similar to that of advanced countries (around $30,000 per capita at purchasing power parity). Of course, the national average is much lower (about one-half), as overall productivity is much lower, and the Chinese authorities have to calibrate policies for their entire vast country.

The West and China must acknowledge each other's perspectives

But, for the outside world, the high-productivity regions are what matters. If we are to avoid further escalation of tensions, the West and China must acknowledge each other's perspectives. Ultimately, however, foreign pressure will have little effect on China's massive and powerful economy. The real question for China lies at home: Do enduring distortions and barriers to investment really serve the development of the country's lagging provinces?

In the past, it might have made sense to protect the nascent industries in the coastal regions from foreign competition. Today, however, China's protectionist regime does little to help nascent industries in the poor interior, because their biggest competitors are no longer foreign companies, but rather firms from the dynamic coastal areas. This implies that China must rethink its very development strategy. And to do that, the last thing policymakers need is an ongoing trade war.

This article appeared in Project Syndicate on December 5th, 2018

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com