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“The US-China Trade Competition is a Catalyst for Internal Reforms in China”



*In an exclusive interview for stars, Prof. Dr. **CHEN Dongxiao**, President of the Shanghai Institutes for International Studies (SIIS), one of China’s leading think tanks, calls for the US and China to work together to avoid the Thucydides trap and to guard against the forces of unilateralism, protectionism and nationalism. He also shares his insights into the challenges facing the Belt and Road Initiative, rising debt levels of local government and the key reforms ahead for China. The interview was conducted by stars alumnus Liang Fook LYE of ISEAS, a Singapore-based think tank, on the sidelines of the stars Singapore symposium 2019.*

Liang Fook LYE: What do you consider key to the peaceful emergence of China as a global power?

CHEN Dongxiao: One of the key factors is China’s ability to continuously achieve success in its economic and social reforms to improve the living standards of its people. It needs to build up its material strength through inclusive and balanced growth. Another key factor is China’s ability to manage its ties with key powers like the United States, Japan and India. At present, the competition with the United States is on the rise which is a new normal. The two countries should carefully manage their geo-strategic competition given the complex nature of their ties. They should work together to avoid the Thucydides trap. Washington has initiated what I see as a “semi-containment” policy towards China especially in the economic and technological fields. Both the United States and China could distill lessons from the Cold War and avoid a repeat of the pitfalls of big power strategic competition.

What are the most important global challenges in the midst of anti-globalization sentiments and rising economic nationalism?

The most important challenge is how to work together by international communities to guard against the forces of unilateralism, protectionism and nationalism. One of the root cause is the increasingly inequality both in developing economies as well as in many developed ones. The strong sense of deprivation and unfairness among many of so-called “losers of globalization” have made it even imperative than before for multi-dimensional reforms of existing domestic and international governance systems. Another root causes of these negative forces could be traced in part to rapid technological advancement which is a double-edged sword. On the one hand, technological advancement brings about daily conveniences but at the same time it causes disruptions especially to vulnerable groups. Countries could work together to mitigate such an impact. It poses new challenges for those more vulnerable groups both in developing economies and developed ones. Governments therefore have more responsibilities than before to work out a more comprehensive and sustainable social and economic assistance system for those vulnerable groups exposed to technology advances.

What are the key challenges for the Belt and Road Initiative (BRI) to succeed in view of the criticism it has received?

The BRI is still relatively new and in its evolving period, it is only five years old. As long as this project is inclusive, multilateral in nature and made more comprehensive with internationally acceptable standards, it will eventually be successful despite the initial difficulties. We should have a more balanced understanding of complaints like the debt problem and the lack of benefits to the local community. For example, the debt problem for developing countries has been there for decades and did not just occur over the last five years. Also, physical infrastructure projects, which form the bulk of projects under BRI, require a huge amount of investment. While the short-term returns are not readily visible, the long-term benefits will be tremendous as they have shown in many cases in China for past four decades. China’s own experience is to get rich by first building roads. China has engaged very extensively and should work with other institutions and countries more proactively to come up with a more balanced and objective assessment of the successes and drawbacks of BRI. It can be better at explaining itself to the international community as the discourse on this topic is still dominated by the West.

How do you see the risk of Chinese local government debt as a trigger for the next financial crisis?

This is an issue that is not unique to China but is also prevalent in other countries including the developed countries such as the United States, Japan and in Europe. I believe the root cause is the global economic crisis of 2008 when a number of governments introduced stimulus packages to mitigate the negative impact of the crisis. Now, these governments are trying to de-leverage and reduce their financial risks. In China, the local government debt is to some extent related to infrastructure development which will bring about long-term benefits. However, there are some concerns over debt incurred by state-owned enterprises (SOEs) which have easy access to credit. Anyway, while we should address debt concerns in a serious way, we also need to have a more in-depth analysis of the nature, specific composition of those debts and put them into a overall economic picture.

What are the key reforms ahead for China to increase its competitiveness and to further lift the living standard of the Chinese people?

The key reforms in the years ahead for China are threefold, i.e. to reduce the systemic risks to Chinese economy, particularly on the financial side, to alleviate poverty and tackle

pollution. In the long term, China needs to transform its economy from low quality production and investments for exports to an economy that is innovation based and consumption driven. China also needs to continue with its reform and opening up policy. There is much uncertainty over the US-China relationship and whether a trade deal can be concluded. Several of the issues related to this deal such as greater market access, better protection of intellectual property rights and technology transfer are relevant in the next phase of China's reform and opening up. In a way, the US-China trade competition is a catalyst for internal economic reforms and opening-up in China.

*Prof. Dr. **CHEN Dongxiao** (dxchen@siis.org.cn) is the President of the Shanghai Institutes for International Studies (SIIS). He specializes in the studies of the United Nations, China's foreign policy and China-US relations. Dr. Chen is the chief editor of China Quarterly of International Strategic Studies (CQISS), a flagship English journal on China's diplomacy published by SIIS and World Scientific Publishing House (Singapore). He is also adjunct professor at Shanghai International Studies University. Dr. Chen received his Ph.D from Fudan University.*

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