



The Chinese Trojan Horse

2010/59
27 | 09 | 2010



MENSEN



WELVAART



BESCHERMING



Marc De Vos
Directeur Itinera Institute

The United Steelworkers Union has filed a case accusing China of violating free trade rules by subsidizing exports of clean-energy equipment. The filing, more than 5,000 pages long, is part of a growing cabal about the Middle Kingdom's increasingly protectionist penchant.

The World Bank recently reported on the rise of Chinese state controlled companies, while both European and American chambers of commerce are voicing concerns about market access and competition in China. None of this should come as a surprise. The West is finally realizing that membership of the World Trade Organization (WTO) has not turned the People's Republic in an honest broker and true believer of global free trade.

There is bitter irony in our frustration with China's nationalist economic policies. For the West is either an accessory to, or the very cause of the evolutions it is now challenging. Take clean energy. In the wake of the financial crisis and the Great Recession, develop-

ing and developed countries alike have embraced the "green economy" as the new mantra of economic development. In the West, this is part of a broader agenda to pull and steer new economic growth by state-driven industrial policies. Car makers on both sides of the Atlantic have thus received billions to support the development of clean cars. Putting the US car industry on a competitive footing in the market for fuel efficient cars was one of the strategic goals behind the GM-bailout. The introduction of solar panels, wind turbines or high-speed trains, has also seen a surge in ambition from governments that are under the irresistible spell of lofty environmental dreams and commercial triumphs. The European Union is

“

The Chinese mixture of markets, planning, trade, protectionism, and mercantilism, is becoming more and more toxic for overall economic progress and fair trade around the world. The deal of bringing China into the WTO and of investing in China on its own terms is turning Faustian for the West and its version of market capitalism.

”

even promoting a coordinated European industrial policy under its 2020 agenda for “smart, sustainable, and inclusive growth”. All of this reflects a post-crisis tendency to embrace what can be called “state capitalism”: using the power of the state to forge economic development directly. There is a self-evident tension between such activist policies and free

trade. State intervention of any kind has an unavoidable protectionist effect, even if it is not protectionism per se. The race for national champions is on, whether it is

for survival in ailing industries or for creation in the green economy and beyond. Our frustration with Chinese policies is therefore pretty selective. Irrespective of technical legal merits, it is really a case of being frustrated with the Chinese beating us at our own game.

For China is doing all of the above in the green arms race, but it can do it on a grander scale, with more determination and with more funds. Its energy market is ex-

panding exponentially, making it the prime growth market for clean energy. Communist planning is extremely effective for pushing the green economy and its infrastructure in the short run. China’s financial sector is not recovering from any subprime meltdown. There is plenty of investment capital available, often disbursed through state controlled banks that are really executing political strategies. Chinese companies can thus take advantage of their preferential status and home-grown expertise to conquer foreign markets, turning the green economy into Chinese market share and Chinese jobs. Further boosted by green subsidies in these domestic markets, the Chinese are also using our very industrial policies to benefit their own.

China is ruthlessly exploiting its natural advantages as well. It accounts for almost all of the world’s production of a handful of rare earth minerals that are vital to manufacturing hybrid cars, wind turbines or lasers. Under the banner of environmental protection, China has drastically reduced export quotas of these essential components, causing their value

to quintuple in the last twelve months and providing its home industry with crucial access and tremendous competitive edge. Western governments and companies are gnawing their teeth but are really unable to bite the country that has become so important for their economic fortunes in the post-crisis world.

That takes us to the fundamental issue of China's role in globalization. Communist China's 2001 accession to the WTO was really a symbol of the West's conviction in the inevitability of its own political and economic model. WTO-membership would be but the first step of a gradual Westernization. Less than a decade later, we are waking up to the fact that China is and has always remained a communist country that embraces capitalism and trade for national interest only. As the financial and economic crises are accelerating China's rise and the West's relative decline, we are increasingly seeing the signs of a Chinese strategy that distorts or undermines free market capitalism from within. The Beijing model is simple. First attract capital and technology.

Trap it by joint-ventures, forced sharing, and intellectual property transfers. Then use government funds and state planning to establish national champions that will gradually turn the table on foreign investors and increase market share as the economy grows. Use the WTO to expand abroad while restricting access at home as far as law or politics allow. Pursue free trade selectively, favouring win-win bilateral agreements with resource rich or fast growing economies over broad trade liberalization. Heavily intervene in the currency market to suppress your national currency and boost your export economy even further.

This Chinese mixture of markets, planning, trade, protectionism, and mercantilism, is becoming more and more toxic for overall economic progress and fair trade around the world. The deal of bringing China into the WTO and of investing in China on its own terms is turning Faustian for the West and its version of market capitalism. Unable to stop China and unwilling to follow it, we face a tense new world of neo-globalization where market competi-

tion is intertwined with political and geopolitical competition, and where the Beijing model is an attractive proposition for developing countries and authoritarian politicians. There is no way back to any Washington Consensus any time soon. But the West can wake up to the Trojan Horse in its midst, can rise to the geopolitical challenge, and can reconnect with the principles of its own model. Reconsidering the inflation of national industrial strategies and reigniting the agenda for transatlantic free trade is a good place to start.

Marc De Vos is professor at Ghent University and the general director of the Itinera Institute. He is the author, most recently, of "After the Meltdown: The Future of Capitalism and Globalization in the Age of the Twin Crises," (ShoehornBooks.com, 2010).

Voor duurzame economische groei
en sociale bescherming.