



## Centre for Air Power Studies (CAPS)

Forum for National Security Studies (FNSS)

108/16

# CHINA'S MULTILATERALISM PUSH IN THE MIDST OF A RISING PROTECTIONISM

**Dr. Temjenmeren Ao**  
Associate Fellow, CAPS

Last week China's September 2016 exports data was released which showed that there was a decline in its exports in comparison to the preceding year as well as the preceding month. According to the data realised by China's General Administration of Customs, export declined by 10 percent from a year earlier and a 2.8 percent drop in comparison to the preceding month.<sup>1</sup>The export decline is somewhat on expected lines given the fact that global exports have been on the decline ever since the 2008 global financial crisis. Global economic growth has been less encouraging, remaining stuck in a low-growth, and low investment and low inflation cycle for a long period of time now, hampering the overall global growth. According to the International Monetary Fund (IMF) projections, global growth would be at 3.1 percent this year with only a modest acceleration to 3.4 percent in the next year. The IMF chief Christine Lagarde, during her speech at the 2016 Annual meeting of the IMF-World Bank in Washington DC, summarised the situation as, "...putting it simply growth has been

*too low, for too long and benefiting too few....".* She further added that, this continued flatness in global growth has added to the rising global inequalities and along with the rising intra and inter State conflicts, has put many "...supporters of economic integration and cooperation on the defensive...."<sup>2</sup>.

The situation has led to a growing call for protectionism amongst Western domestic political rhetoric, as it seems to attract major followings amongst domestic public. This is also evident in the US election currently underway, with the Republican candidate Donald Trump calling for an end to the American job loss to other nations and stating that he would end the Trans Pacific Partnership if elected to office – this is after calling the North America Free Trade Agreement (NAFTA) as a major cause for America's current economic slowdown and state of unemployment. This growing antithesis in the West to the idea that trade and openness are beneficial to those who embrace them, is leading



towards a call for greater multilateral cooperation and dialogue amongst institutions such as the IMF and nations that argue that this would lead towards global stability. China has been on the receiving end of this global slowdown – as seen with its declining exports which in turn are causing a slowdown of its economy. Thus, today, China is one of the major propagators of multilateralism. Further, there has also been a flight of foreign capital away from China that has been witnessed in 2015, with the US Federal Reserve increasing interest rate for the very first time in a decade by 0.25 basis points. There is a possibility for another increase in the interest rate when the US Fed meets on November 2, 2016, as indicated by the US Federal Reserve Chairman, Janet L. Yellen, during the annual symposium of the Federal Reserve Bank held at Jackson Hole, Wyoming on August 26, 2016. However, this would also depend on other factors such as the US unemployment data which would call for a hike in interest rate in case of a rise in the unemployment rate. Others, such as Boston Fed President, Eric Rosengren, see US unemployment rate dropping to 4.5 percent and projects that the US Fed rate could reach one percent only by the end of 2017 and little under two percent in 2018; thus, there would be no further increase at least in the current fiscal.<sup>3</sup> The consequence of this would be on China's foreign investments which would continue to see a decline, as FIIs would begin to seek investments outside of China or head back

to the US if this interest rate hike happens. These uncertainties that engulf the current state of the global economy, along with a possible hike in crude oil prices – with the OPEC suggesting reducing production by year end – pose serious challenges for China.

It is under this growing cloud of global economic uncertainties that China is vigorously promoting the idea of multilateralism, seeking cooperation through various multilateral organisations such as the Shanghai Cooperation Organisation, while seeking countries to eagerly participate for the success of the Asian Infrastructure Investment Bank and the BRICS New Development Bank. It must be realised that China is seeking the success of these institutions as it sees them as alternatives to the existing multilateral banks dominated by the West. Thus, through these multilateral institutions China seeks the development of partnerships in the realms of innovation and inclusiveness in order to ensure a sustained economic growth; and in this mix, there lies the promotion of interconnectivity through its 'One Belt One Road' initiative. The slowdown in its economy has compelled China to seek multilateralism as a means to counter the emerging antithesis of free trade and globalisation in the West, with China's minister Wang Shouwen assuring India in the recent 6<sup>th</sup> BRICS Trade Ministers Meeting that China would act on India's concern on greater market access to China's market – something that has caused a widening of India's trade deficit

vis-à-vis China.<sup>4</sup> Thus, China is willing to address issues which could act as a major hindrance in its path towards establishing multilateral cooperation amongst nations through these new institutions and initiatives in order to counter the rising Western protectionism and ensure its sustained economic growth, which at present seems to be erratic.

***(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])***

---

#### Notes

<sup>1</sup>“China Balance of Trade, 1983-2016”, *Trading Economics*, <http://www.tradingeconomics.com/china/balance-of-trade>, accessed on October 17, 2016.

<sup>2</sup>Christine Lagarde, “Managing an Inclusive Transition for the Global Economy”, *2016 IMF-World Bank Annual Meeting*, Washington DC, October 7, 2016, <http://www.imf.org/external/am/2016/speeches/pr02e.pdf>, accessed on October 17, 2016.

<sup>3</sup>Greg Robb, “Fed may have to hike interest rates faster, Rosengren says”, *Market Watch*, October 14, 2016, <http://www.marketwatch.com/story/fed-may-have-to-hike-interest-rates-faster-than-it-now-forecasts-rosengren-says-2016-10-14>, accessed on October 17, 2016.

<sup>4</sup>“China Assures wider market access for India Products”, *The Economic Times*, October 13, 2016, <http://economictimes.indiatimes.com/news/economy/for-eign-trade/china-assures-wider-market-access-for-indian-products/articleshow/54827829.cms>, accessed on October 17, 2016.