

# Xi opens the door at Boao

Blog post by Chief Economist Gregor Irwin, 12 April 2018

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Was it a rehash of old announcements or concessions that could prevent a trade war? These starkly different verdicts have been offered on President Xi's plans to liberalise the Chinese economy, set out at the Boao forum this week. In practice, it was neither. What Xi provided is a basis for negotiation, which means the hard work still needs to be done if trade tensions between the US and China are to be deescalated.

The headline message was clear - China is "opening up" - a phrase used no fewer than 40 times by Xi and intended to leave the audience in no doubt about the direction of policy in Beijing, regardless of the current mood in Washington.

Sceptics say we've heard that before. What is more significant, however, is the message that the process of opening up "will definitely enter a whole new phase". In a system where the utterances of the most powerful leader for a generation matter, this a signal for officials to get on with it.

There were four main elements to the approach set out by Xi. He promised more transparency for foreign investors, with a negative list for foreign investment, and an improved business environment with clear rules, implicitly acknowledging a long-standing complaint by many foreign firms that these are currently opaque and enforced unevenly, invariably to their disadvantage

Xi said China will raise foreign equity caps in banking, life insurance and fund management. That repeats a promise he made in November last year. Yi Gang, the new governor of the People's Bank of China, spoke at Boao the following day and committed to a timeline, with a plan to raise the equity caps to 51% for fund managers and life insurers in the coming months and then to eliminate them within three years. He also said foreign banks will be allowed to open branches in China.

The final two elements set out by Xi get right to the heart of the current dispute with the US. He said China will "protect the legal intellectual property" of foreign firms in China, while calling on foreign governments to protect Chinese intellectual property. This is an area where foreign investors will certainly want more detail, particularly as the sharing of technology has long been a condition for investment in some sectors and China has a track record of doing the minimum necessary to defuse and deflect criticisms in this policy area. Lastly, Xi committed to lowering import tariffs, specifically for autos, but also on "some other imports". Earlier this week, President Trump tweeted to complain about the imbalance between the US and China in their auto tariffs.

Foreign investors and governments are right to ask for more specific commitments, but it is wrong to dismiss Xi's plans as a rehash of his Davos speech last year. As the Yi announcement shows, Xi is not the man to look to for the detail, which will be for officials to provide. One test of Xi's sincerity is whether we really do see other officials following through with detailed implementation plans in the coming weeks and months.

Equally important is what this means for the relationship with the US. It is notable that Xi highlighted intellectual property and the auto sector - two touchstone issues for Trump, even

though Xi did not mention the US president by name or directly refer to him. It is also interesting that Trump has since tweeted to “thank” Xi for his speech, even suggesting it could be a basis for them to “make great progress together”.

The question now is whether, and when, that progress might materialise and whether it will be sufficient to prevent a trade war. President Xi has already identified his point man, the newly-promoted vice premier, Liu He, who has a reputation as a liberal policymaker and now also has an agenda for negotiation, provided to him by his president. What he currently lacks is a clear interlocutor in the US and a commitment to open negotiations. It is the turn of the US to respond, assuming the White House is serious about finding an accommodation with the Chinese.