

As Trump Shreds Global Trade Deals, Xi Basks in 'Davos Man' Role

By **Enda Curran** and **Nick Wadhams**

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→ America First stance set for frosty reception at WEF gathering

→ While trade tensions loom, global economy is in great shape

If one needed a reminder of how surreal the globalization debate has become in recent years, look no further than the talking salons of Davos <<https://www.weforum.org/events/world-economic-forum-annual-meeting-2018>> .

Donald Trump and Xi Jinping, whose countries account for about 40 percent of the global economy, are offering competing visions for the future of global trade, capital flows and economic integration in this age of widening income inequality and populist angst.

In an historic role reversal, it's the leader of the Chinese Communist Party who has emerged as a defender of the Davos consensus, last year using his speech in the Swiss ski resort to defend globalization. And it's an American president -- the main event this year -- insisting his country's economic interests take precedence over gauzy visions of a more inter-connected world.

Trump comes to the [World Economic Forum](#), set to kick off on Jan. 23, with a rap sheet in the eyes of the Davos true believers. In his first year in office, he's withdrawn the U.S. from the Trans-Pacific Partnership free trade deal and the Paris Agreement on climate change. He's threatened to renege on the Iran nuclear deal, a free-trade agreement with [South Korea](#), and the North American Free Trade Agreement (NAFTA).

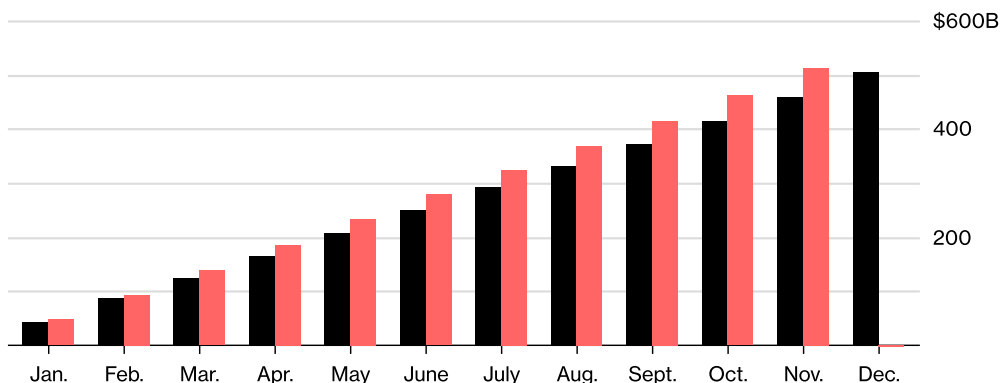
He wants to build walls (literally along the U.S.-Mexican border), not tear them down, and has reportedly questioned why the U.S. accepts [immigrants](https://www.bloomberg.com/politics/articles/2018-01-11/trump-said-to-call-haiti-african-nations-shithole-countries) <<https://www.bloomberg.com/politics/articles/2018-01-11/trump-said-to-call-haiti-african-nations-shithole-countries>> from "shithole countries" like Haiti, El Salvador and African nations.

"The threats to global trade integration should not be underestimated," said Eswar Prasad, a former chief of the [International Monetary Fund's](#) China division and now a professor at Cornell University in Ithaca, New York. "The Trump administration has fomented uncertainty in the rules of the game underpinning international trade."

The Ballooning U.S. Trade Deficit

Through November, the shortfall had already surpassed the total deficit for 2016.

2016 2017



U.S. trade deficit in goods and services in billions of dollars. Source: Census Bureau

As America withdraws, China's global influence is growing. Xi has dispatched his trade negotiators to help formulate a new Asian trade pact in the wake of TPP. China's ambitious Belt and Road Initiative, which calls for massive infrastructure investment and the development of new trade routes, is reshaping the terrain in the world's most economically dynamic region.

Xi won't be attending Davos this year, with his top adviser on the economy set to represent China's interests. The Chinese President's [speech last year](https://www.bloomberg.com/politics/articles/2017-01-17/china-s-xi-urges-davos-elite-to-solve-excesses-of-globalization) was seen as a rebuttal against the protectionist threats of Trump, who was then just days away from taking office after a campaign littered with threats to take on China over trade issues.

[Read More: Xi's economic adviser Liu He to represent China at Davos](https://www.bloomberg.com/politics/articles/2018-01-15/xi-s-economic-adviser-liu-he-to-represent-china-at-davos-forum)

China of course is nobody's idea of a free-market economy. It subsidizes rust-belt industries that are flooding global markets with steel, it shut down short-sellers during a stock market bust in 2015 and state-owned enterprises and banks still dominate the economic landscape. Yet Xi hasn't blasted trading partners as brazenly as Trump, nor been so quick to threaten trade wars to pursue its economic agenda.

Trump's blustery style and withdrawal from global commitments has given Xi an opportunity to recast himself as a defender of the existing order--even if it's clearly on China's terms.

Given all that, it's probably not surprising that this year's big-think theme at Davos is: "Creating a shared future in a fractured world." Other world leaders expected to weigh in that debate include India Prime Minister Narendra Modi and French President Emmanuel Macron.

Growth Upswing

Despite the ripped-up trade agreements and kvetching over the lack of American leadership, the world economy is actually enjoying its first run of synchronized growth in years and stock markets are booming.

Global trade in goods and services surged in 2017 and the pace of growth is forecast by the IMF to have hit 4.2 percent, outstripping 2.4 percent in 2016. The [World Trade Organization](#) said there were fewer restrictive measures from mid-October 2016 to mid-October 2017.

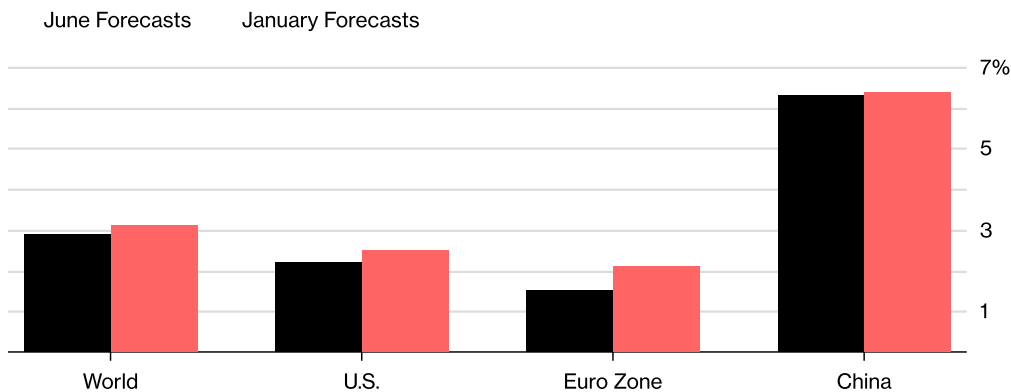
At the same time trade deals continue to get done, evidenced by European Union agreements with Canada and Japan and a continued push to complete the TPP even after Trump withdrew from it.

Read more: A QuickTake explainer on Xi Jinping <<https://www.bloomberg.com/view/quicktake/xi-jinping>>

"Globalization continues apace," said Ann Lee, author of "What the U.S. Can Learn From China" and an adjunct professor of economics and finance at New York University. "Both the U.S. and China are racing to spread their economic and political influence around the world. And both are trying to bend the order in their favor."

Rosier Outlook

The World Bank boosted its GDP growth forecast for the world and major economies



Source: World Bank economic forecasts from January 2018 and June 2017

The U.S. wants greater scrutiny of Chinese imports and investments and is considering tariffs on steel and aluminum imports, aimed at China. It's also investigating China for alleged intellectual property theft and forced technology transfer.

Ant Financial, the Chinese financial services giant controlled by Alibaba co-founder Jack Ma abandoned a plan to buy [MoneyGram International Inc.](#) <<https://www.bloomberg.com/quote/MGI:US>> after failing to win approval for the deal from a key government panel. That stoked speculation the rejection was a warning shot to China.

While Trump and Xi both claim to have a personal rapport, that friendship only runs so far. Trump told the New York Times last month that he was holding off on harsh trade measures against China only as a bargaining tool in dealing with North Korea's nuclear threat.

"The president has been a protectionist for decades," said Derek Scissors, a China economics expert at the American Enterprise Institute and chief economist at the China Beige Book in Washington. "There is no credible way for him to proceed on trade without going after the Chinese."

Growing Influence

China's growing global influence is increasingly evident. The U.S. has lost its status to China as Latin America's top trading partner in recent years as the region increasingly turned to Asia as the top destination for its farm goods, raw materials and processed foods, in exchange for everything from cheap electronics, textiles, to car parts and heavy machinery.

One exception is Mexico, which still mostly depends on the U.S. thanks in part to the North American Free Trade Agreement's zero-tariffs regime. But with U.S. President Donald Trump's plans to rewrite Nafta, build a southern border wall and exit the Paris climate change accord -- supported by Latin America -- China could gain even more ground.

While few are tipping an all out trade war, new, less visible barriers including subsidies, buy local campaigns and bailouts along with government intervention in the digital economy are creating Protectionism 2.0, according to [Eurasia Group](#), the New York based risk consultancy.

That means it's a question of how both leaders hold their nerve, said Michael Hirson, who leads Eurasia Group's coverage of China and served for three years as U.S. Treasury's chief representative to Beijing. "Both leaders have an interest in preventing this from becoming a trade war," Hirson said.