

Tech crackdown is a cloud over China economy, ex-WTO chief says

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China's regulatory efforts to increase control over its technology sector adds another "decoupling engine" to the global economy, which could weigh on Chinese growth prospects, the former head of the World Trade Organization said.

Pascal Lamy, who has long-warned of the negative effects of U.S. efforts to "decouple" elements of its [economy](#) from China's, said political trends in China could stall the country's push to increase exports of [digital services](#), potentially trapping it in "middle income" status.

Lamy spoke about those developments in a recent interview, as well as

tensions between China and the European Union over digital services and carbon border taxes. As a former trade commissioner for the EU and later director general of the WTO, Lamy has had direct involvement in policies encouraging Europe's closer trade and investment integration in China.

Here are highlights of Lamy's interview, which has been lightly edited for clarity.

Q. What is your interpretation of Beijing's recent move to rein in its tech sector and become more self-reliant in technology?

A. One interpretation can be that Xi Jinping is moving further into a strategy of increasing control over the economy, behaving as if there was a threat for the system and for the party, even though the indications we have don't point in the direction of there being a threat. He has his own view that China needs further doses of decoupling from global market capitalism. If you add that to the U.S. stance, we now have two decoupling engines.

Long term, this is a problem, especially for the tech service sector, which is where most of the growth of the economy in the future will come from. This is a cloud that wasn't there a few years ago on the future success of the Chinese economy.

Q. What are the prospects for decoupling between China and the U.S. and Europe?

A. The idea that Europe could do without the Chinese economy is pie in the sky. The political backlash to Hong Kong and Xinjiang has an impact on public perceptions, but I think tensions with China will affect more the new economy than the old one. Cars or shirts are ideologically neutral. It will influence where the world is ideologically not flat, and

digitalization is a combination of ideology and technology. The problem is that most growth will be in the new economy.

I don't believe that China will replace its export engine with a domestic consumption engine. Western markets will remain very important for China. (China) has enormous potential. But if the U.S. and Europe say you can't export digital services to us, this will be a problem. (Beijing) could be cornering themselves into a middle income trap. Services are the key to getting out of that trap, hence the need for a more efficient service sector, which implies more foreign competition.

Q. You're a proponent of the EU's efforts to impose a carbon border tax, which China says violates WTO principles. Will the tax further stoke EU-China tensions?

A. The Chinese reaction at this stage is a classical reaction: it is an obstacle to trade, so it is bad. But only the future will say whether or how much China will have to pay. Maybe it will not hit China much, or at all. The Chinese are able to export low carbon content production to the EU. In the meantime I think China will keep its stance, which in short is: "rich countries are putting obstacles to trade on poor countries." The Europeans will say to China that if you're serious about raising the price of carbon at the proper level, then we can find an arrangement.

Germany knows that if China retaliates, they will be first in line since they have the largest exports to China in the EU. My message to German officials is there is a way to set up the mechanism which is WTO compliant. I understand the concerns but what is the alternative? If you raise the price of carbon to say 80 euros (\$94.91), how do you avoid carbon leakage?

Q. What are the prospects for reviving the role of the WTO, and what is the biggest challenge for its new director Ngozi Okonjo-Iweala?

A. Her main focus is to fight this notion that the WTO is dead. She has a few short-term deals, like on fishing which are economically minuscule, but important as a first step. I think she has done well positioning the WTO on the pandemic and vaccine issues. If you ask me, the results so far, none yet. But I know that you need a few years. The issues of the appellate body will be solved in the future, but I don't think the U.S. will push it before the mid-terms.

The really big issue is how to level the playing field with a more communist China than in the past. How do you address this divergence between the Chinese economic system and market capitalism? The problem is the one between France and Germany in the 1950s, when Germany didn't want to open its economy with France, whose economy was 30% state-owned, like China now. The compromise was European discipline on state aid. We need something of this kind at WTO level. The other major problem is how to organize co-existence between China and the rest of the world in the digital economy.

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