

Objective Analysis on US-China Trade Relations After G20/G2 Mainstream and Organic Views Dr. Wordman

On December 1, 2018, US President Trump and Chinese Leader Xi Jin Ping held a 150-minute dinner meeting at Buenos Aires, Argentina where the 13th G20 took place. The meeting was highly anticipated and hyped in the media to world attention. At the end, the two sides reached an understanding by announcing a 90-day truce stopping the escalating trade war. Both sides will not increase any tariff rate nor add new items onto the current tariff list. Within the 90 days, both sides will negotiate and try to reach an agreement. The caveat is, if a satisfactory agreement could not be reached, they would be back to the trade war. This transnational conclusion is certainly better than no conclusion. The question is: will they reach a final agreement? Let's make a fair analysis on each side's demands and see whether a satisfactory agreement can be reached in 90 days.

This trade war was initiated by the U.S. China was on the defensive firmly stating that she would rigorously defend her rights. The most important matter to China is her right to maintain her economic development and to continue pursuing the China Manufacture 2025 plan which is designed to elevate her manufacturing and product technologies. The U.S. had made more accusations and demands in asking China to cease or correct her trade practices in addition to objecting to the China's 2025 manufacturer plan. Apparently, the U.S. had realized that it is unfair to forbid anyone to have its own development plan unless the plan contained measures violating international law and damaging to the U.S. economy. Thus the U.S. did not mention 'China manufacturer 2025' but focused on the specific practices that were deemed damaging to the U.S., such as deploying predatory tactics in its tech drive, including stealing trade secrets and forcing American firms to hand over technology in exchange for access to the Chinese market.

According to the White House announcement, Trump agreed to hold off raising tariffs on Jan. 1, 2019 on \$200 billion in Chinese goods and China agreed to buy a very substantial amount of agricultural goods, energy, industrial and other products from the United States to reduce the huge trade deficit with China. The media (Times) noted that the White House appeared to be reversing course on its previous threats to tie trade matters to security concerns (like China's construction activities in the South China Sea). Out of humanitarian reasons, China agreed to label fentanyl, the deadly synthetic opium causing the death of tens of thousands of American drug users annually, as a controlled substance (making seller of fentanyl to the U.S. subject to maximum punishment).

The G20 downgraded their outlook for global economic growth next year to 3.5 percent from a previous 3.7 percent citing the trade conflict as well as political uncertainty as the causes. The U.S. stock market has been jittering downward worrying about the outcome of the US-China trade war. Will this 90-day truce bring us an agreement that will stop the trade war for good? Based on the events including rhetoric, actions and counter-actions happened in the past eight months and the above truce statement, one may be cautiously optimistic about the future. First of

all, the rise of China and her economic power was not by stealing from anyone, it has its logical reasons. China's focusing on manufacturing and the U.S. transforming her economy from agriculture and manufacturing industries to finance and service industries are all their voluntary choices. The success of China's goal of lifting her significant number of citizens from poverty line to middle income is commendable and can be credited to her government's right economic policies and her people's work ethics.

China started with low level labor intensive manufacturing which most advanced or developed nations were willingly to transfer for profit and/or to get cheap goods in return. Then China, like all market places on earth in the past history, offered her market place for technology products, from low, medium and high tech with the condition that China would benefit with technology infusion while the foreign firms could rip tremendous profits. The Chinese government might have a concerted plan coercing foreign companies to participate, but in reality no one was forced under a gunboat (thinking of the British forcing opium trade to China under her gunboat power). The foreign corporations voluntarily signed their cooperation ventures. Did they make money, sure they did. Did the Chinese learn from the transferred technology, yes they did with more innovation on her own. Hindsight to cry foul seems to be just sour grape attitude. As for invasion of intellectual property, it has been a sad history since industrial revolution. There was no shortage of stealing, copying and cheating on intellectual properties in all developed countries. China is a late comer and she like other developed nations will soon face the same problem as she has now become the biggest annual patent holder surpassing the U.S., Japan and Germany.

China certainly has the right to have her Manufacturer 2025 plan to upgrade her technologies. China has been shutoff from high tech participation when national security threat from China was a joke. But with 24 neighbors, a number of them technologically and militarily powerful, out of necessity she has to develop her own defense technology. She succeeded in nuclear power but she was the only country declaring that she would never use it first against anyone. She developed her space technology, not only the satellites, space shuttles even her own space station despite of being shut out from the world's space-station research club. Yes, China has risen but she has done it with her people's sweat, body and soul. Is China a threat to the world? Looking back in history, it is safe to bet that China might be the least threatening nation among the major powers in the world. Will China bring competition to the world? Yes, more likely to be beneficially and peacefully.

Facing the ill-initiated trade war, China decided to stay firm to defend her rights. With the 90-day truce, China will likely agree to open up more her markets, modify her investment control process, enhance protection of intellectual properties in a gradual pace as she probably would without the trade war. In addition, China will purchase more substantial American products, perhaps slightly at the expense of other countries. But the sanction of selling high-tech products to China is most likely the obstacle for reaching a trade agreement. The US hi-tech sanction policy places China as a competitive enemy directly hindering her strategy of upgrading her industrial technology base to sustain her economic growth. Yet removing such sanction is the most effective means for reducing the US-China trade imbalance.

For example, an advanced hi-tech Jet plane is priced from \$100-500 million, three hundred planes can value up to \$150 billion. The US-China trade imbalance is only about \$3000-4000

billion. Thus with China's enormous purchasing power, reaching a trade balance between the two countries is an achievable goal. What about China will begin to make her own planes? Just like cars we could not stop the Japanese, Koreans, ... we just have to move on and upward in this competitive world. So the key is to make Americans competitive like the Germans, Japanese and Chinese. Regarding IP protection, China also has her concern of outflow of her advanced technologies in the areas of high-speed rail, electric vehicle, robotics, renewable energy resources, transport and storage of energy, etc. So the positions of The U.S. and China on IP protection should quickly converge.

Regarding other structural changes related to trade, finance and investment, it would seem to be more productive for the U.S. and China to begin working together on WTO reform (rather than litigation against each other). China is very concerned with the stability and sustainability of her economic growth, so should the U.S. China will not entertain any drastic changes on her working economic system or any new idea without experimentation nor will she (and the rest of the world) give up current WTO easily. The U.S. should have understood China's concerns and issues discussed above. Therefore, in the 90 days of negotiation, we may optimistically say that the U.S. and China can reach a trade agreement barring any gunboat attitude messing up the negotiation.