

Who blinks first? That is the wrong question

China's policy developments are not a reaction to a threat – they are designed to better the lives of Chinese consumers

Most media, everywhere in the world, cater to their domestic audiences by stoking the fires of nationalism. This is no extraordinary insight: human beings, rooted in common evolutionary history, are territorial and tribal animals; we take pride in our home countries, just as we do in our home sports teams (the word “fan” is short for “fanatic”). Patriotism, taking pride in one's country, is laudatory and energizing, but if excessive, misdirected or blinding, it backfires and becomes counterproductive.



Robert Lawrence Kuhn

In covering the claims and counterclaims, moves and countermoves, of the United States and China in what some label “a looming trade war”, the media likes to frame the question in terms of a tough-guy metaphor — “who blinks first?” — as if international economics is the children's game of staring each other down.

But “who blinks first?” is a myopic viewpoint, mischaracterizing as a weakness that may be a strength — a sophisticated, nuanced pathway that can lead to a mutually beneficial, win-win solution. Win-win does not mean compromise, though it often involves compromise, or at least appreciating the other side's way of thinking. Win-win means optimization, non-zero-sum, where the gain to your side does not require a compensating loss by the other side.

President Xi Jinping's closely watched keynote address at the recent 2018 Boao Forum for Asia, given at a moment of high tension between Washington and Beijing, sought the virtue of win-win optimization. Certainly, Xi's overarching mission, as is the mission of every head of state, is the well-being of his own people and country. Yet, due to China's huge and

growing powers, Xi recognizes that in today's interconnected world, concern for less-developed countries as well as care for the global commons is essential

To appreciate Xi's words, we need to look at the conditions just prior.

On April 3, the Trump administration released a 58-page list of 1,300 Chinese imports, worth \$50 billion (40 billion euros; £35 billion), that would be subject to new United States tariffs of 25 percent. The US accused China of “economic aggression”, setting unfavorable and unfair conditions for US companies and of industrial cybertheft. Most US economists and business executives reject sweeping tariffs targeting China, disagreeing vehemently with Trump. Tariffs are taxes on American consumers who will have to pay higher prices, they say, and tariffs prop up old industries and impede the industrial transformation the US needs to create the new economy. At the same time, these same American experts and leaders broadly condemn “the negative economic impact of China's industrial policies and unfair trade practices”. On getting “tough with China”, I have not seen such consensus between both ends of the US political spectrum. A storm seems to be brewing: the seas of China-US relations do not look calm.

On April 4, China's Ministry of Finance declared that it would impose 25 percent tariffs on 106 US products in 14 areas, including soybeans, automobiles and chemicals — worth an equivalent \$50 billion — with the effective date of the new tariffs depending on when the US tariffs on Chinese products go effective. In addition, China filed a complaint with the World Trade Organization, questioning the legality of US tariffs, and asked WTO member states to “lock arms with China”.

On April 5, President Trump doubled down by threatening to impose tariffs on an additional \$100 billion of Chinese imports.

On April 6, China's Ministry of Commerce responded by reiterating that China will fight to the end to defend its own legitimate interests and is willing to pay any price if the US sticks to unilateralism and trade protectionism.

On April 9, President Xi spoke at Boao, addressing concerns that some have regarding China's rise. China upholds, not undermines, the international, rules-based order, he said. China will not threaten anyone, nor attempt to overturn the existing international system, and will not seek spheres of influence, no matter how much it develops.

Everyone who watches China expected Xi to propound his grand vision of a community with a shared future for all humanity, highlighting reform and innovation, inclusiveness and responsibility, harmony without uniformity, and openness and connectivity. What they were waiting for was what, if any, real reforms would Xi announce because, having consolidated power, whatever he announced would have a higher likelihood of actual implementation.

Xi did not disappoint. He put forth five areas where China would reassert its commitment to intensifying reform and opening-up, especially in this 40th anniversary year of those policies.

First, significantly broadening market access in the financial sector and in certain manufacturing areas, particularly automobiles (where foreign companies would be able to exceed the current 50 percent cap on ownership).

Second, significantly lower import tariffs for vehicles and a reduction of import tariffs for some other products.

Third, an increase of imports that are competitive and needed by the Chinese people, with the first China International Import Expo to be held in Shanghai in November.

Fourth, protecting intellectual property rights, Xi said, is the centerpiece of the system

for improving property rights protection and will provide the biggest boost to enhancing the competitiveness of the Chinese economy.

“Stronger IPR protection is the requirement of foreign enterprises and even more so of Chinese enterprises,” Xi noted.

Fifth, making the investment environment in China more attractive to foreign companies by cutting bureaucracy, permits and the like.

Although each of these five reforms addresses specific concerns of the international community, it was the totality of the pledges that triggered a worldwide surge in stock markets. Donald Trump immediately tweeted his approval. Speaking of Xi, he said: “We will make great progress together!”

Lest anyone think that Xi was succumbing to US pressure, he stressed that all the measures were taken “of our own accord to open up the Chinese markets”. No one doubted that all of his moves were designed to better the lives of Chinese consumers and, in the long run, build the competitive strengths of Chinese companies. What is critical to appreciate is that all these reforms are first and foremost good for the Chinese economy, even if they also respond to foreign concerns.

So, “who blinks first?”

Let's look at the biology, where the real-life purpose of blinking is to protect the eyes by spreading tears across them, and to remove irritants from the surface of the cornea. Blinking may also have attention-related benefits. So, don't be afraid to blink first.

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Opening-up remains key to China's development

But some obstacles remain in the path of implementing reform measures in the most effective way

President Xi Jinping delivered a much-anticipated speech at the 2018 Boao Asia Forum reaffirming China's determination to keep opening up to the global economy. Such messages, largely consistent with what Xi delivered at the Davos World Economic Forum in 2017, provided more detailed plans to lower the entry barriers into key markets such as the services, finance and automobile industries.



Zhu Ning

In addition, Xi vowed that China will encourage imports and improve its practice of intellectual property rights protection. Specifically, he mentioned that China will lower the tariffs on a range of products, including automobiles, as one of several ways to encourage imports.

All of these messages have received considerable international attention and enthusiasm. With China's burgeoning growth during the past decades, the country has undoubtedly become one of the largest and fastest-growing markets for companies around the globe. Entry into China's market not only means huge business opportunities for foreign players, but also

brings China ever closer to the rest of the global economy.

The speech could not have come at a better time. The increasing tension between China and the United States regarding a wide range of issues on economics and finance has cast dark clouds on the global economy. Many worry that if the world's two largest economies cannot find a proper way to sort out their differences and disputes, many smaller countries may inadvertently become collateral damage in the process. In addition, should there be any escalating punishment launched toward each other, the growth of both countries will unavoidably be affected, which would almost surely hurt the worldwide economic recovery and the growth that is widely forecast for this year.

Some suspect that the Chinese leader might announce some even more aggressive actions to assuage demands by US President Donald Trump. However, if one is familiar enough with Chinese philosophy and governance style, one will probably know that the last thing a Chinese leader would do is bow to foreign pressure. If anything, foreign pressure will only solidify China's stance, as a way to show China's independence and might in front of the global arena.

Instead, the messages that President Xi

recently delivered probably reflect largely what he alluded to last year in Davos, and what Vice-Premier Liu He confirmed at this year's Davos meeting. That is, to keep China's opening up is the chosen way for China's continuing efforts to reform and open up, and is in the utmost interest of Chinese citizens and corporations.

China's economy has benefited considerably from the more domestically focused, investment-driven growth model after the 2008 global financial crisis, when many developed countries have encountered weakened consumption growth resulting from the fallout of the crisis. As this investment-driven growth model has gradually reached its limit and engendered the potential of causing debt escalation and systemic financial risks, China correctly and in a timely manner came to realize the importance of further reform for more sustainable and steady growth in the decades to come.

The 19th National Congress of the Communist Party of China and the election of the new leaders of the country during the two sessions last month have certainly paved the way for more decisive and consistent reform measures to be implemented. Nevertheless, one would have to determine the most effective way to implement the reform measures.

To that end, opening-up can truly kill multiple birds with a single stone. On one hand, by gradually becoming more open and the new leader of globalization, China can truly become a creator and leader of global order, on top of its spectacular economic success. On the other hand, a more open China can open more doors for Chinese companies and citizens, for matters encompassing trade, investment, immigration, tourism and cultural exchange, which will greatly enhance the welfare of Chinese and help them better achieve their China dream.

Of course, obstacles remain despite President Xi's emphasis that the earlier his opening-up measures are implemented, the better. Some long-standing and key areas of reform, such as State-owned enterprise, financial and legal reform, have been progressing slowly, which limits China's potential and resilience in further opening up. In the end, opening-up does not take place for the sake of opening-up, but serves the important role of prompting further reforms, as the successful experience in China during the past few decades has proved.

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