

COMMENT

Zhao Hianxi n

A 'mellowed' Trump no reason for Beijing to be complacent

As trade tensions ratchet up between the world's two largest economies with US President Donald Trump directing the US Trade Representative last week to identify Chinese goods worth \$100 billion for additional tariffs, some academics are trying to explain the chaos.

Economic globalization is at a crossroads, with trade protectionism and unilateralism on the rise, Jon Taylor, a professor of political science at the University of St. Thomas in Houston, Texas, said on Tuesday.

As Trump moves the US away from global institutional rules, President Xi Jinping's vision, re-emphasized at the Boao Forum for Asia on Tuesday, promotes China's alignment with globalization principles, principles the US appears to be abandoning, Taylor said.

While some other analysts have said the US' actions will not resolve the trade conflict, Joseph E. Stiglitz, the 2001 winner of the Nobel Prize for economics, stressed: "The trade skirmish between the US and China on steel, aluminum, and other goods is a product of ... Trump's scorn for multilateral trade arrangements and the World Trade Organization, an institution that was created to adjudicate trade disputes."

Trump's instruction to the USTR comes after the US administration announced additional tariffs on Chinese imports worth \$50 billion on April 3, which forced China to respond by slapping 25 percent tariffs on US soybeans, corn, airplanes and automobiles. And although China has filed "a request for consultation" with the US under the WTO dispute settlement framework, it has made clear it will not hesitate to strike back against the protectionist moves.

"China's response has been firm and measured, aimed at avoiding both escalation and appeasement, which, when dealing with an unhinged bully, only encourages more aggression," Stiglitz said in a Project Syndicate article on Thursday. Stiglitz, who is also a former World Bank chief economist, is among those experts who believe reducing imports from China is not likely to create jobs in the US — rather it will increase prices for US consumers and create jobs in countries that step in to replace the imports from China.

According to experts, 37 percent of US imports from China are intermediate products, which American companies use in order to become more competitive. "Putting tariffs on intermediate products is shooting oneself in the foot," says an analytical study titled "Why a trade war with China would hurt the US and its allies, too" by David Dollar, a senior fellow at John L. Thornton China Center of the Brookings Institution, and Wang Zhi, director of Research Center of Global Value Chains at the University of International Business and Economics.

On the other hand, Stiglitz emphasized: "Even if Trump had no economists advising him, he would have to realize that what matters is the multilateral trade deficit, not bilateral trade deficits with any one country."

Moreover, calling China a pillar of the multilateral system, United Nations Secretary-General Antonio Guterres said trade wars are bad not only for those involved but also for the global economy. The international framework governing global trade is of extreme importance, with the WTO at its center, he said in New York on April 6, adding: "Free trade is a very important contributor to global prosperity."

And Marie Kasperek, associate director of the global business and economics program at the Atlantic Council, argued that Trump's focus on pure trade deficits is insufficient a reason and imprudent a way to evaluate Sino-US trade relations. "After all, a trade deficit simply describes a situation in which domestic investment is bigger than national savings," she said. While Kasperek said it was hard to predict how the situation would develop, the good news is that nothing is set in stone yet.

That may be true, as Trump softened his tone in his Sunday tweet, saying, "President Xi and I will always be friends, no matter what happens with our dispute on trade." But the fact that he also tweeted, "China will take down its trade barriers because it is the right thing to do," shows his mellowed tone could be just a ploy, given his known "scorn for multilateral trade arrangements and the WTO."

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Policy decisions not because of US threat

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.

In covering the claims and counter-claims, moves and countermoves of the United States and China in what some label "a looming trade war", some media outlets like 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 what 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 2018 Boao Forum for Asia on Tuesday, 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 Donald Trump administration released a 58-page list of 1,300 Chinese imports worth \$50 billion that would be subject to new US 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 US consumers who will have to pay higher prices, they say, 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 worth \$50 billion in 14 areas, including soybeans, automobiles and chemicals, 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 the US tariffs, and asked WTO member states to "lock arms with China".

On April 5, President Donald 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 legitimate interests and is willing to pay any price if the US sticks to unilateralism and trade protectionism.

And on April 10, 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 humankind, 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 Xi would 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 on some other products.

Third, an increase in import products which 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.

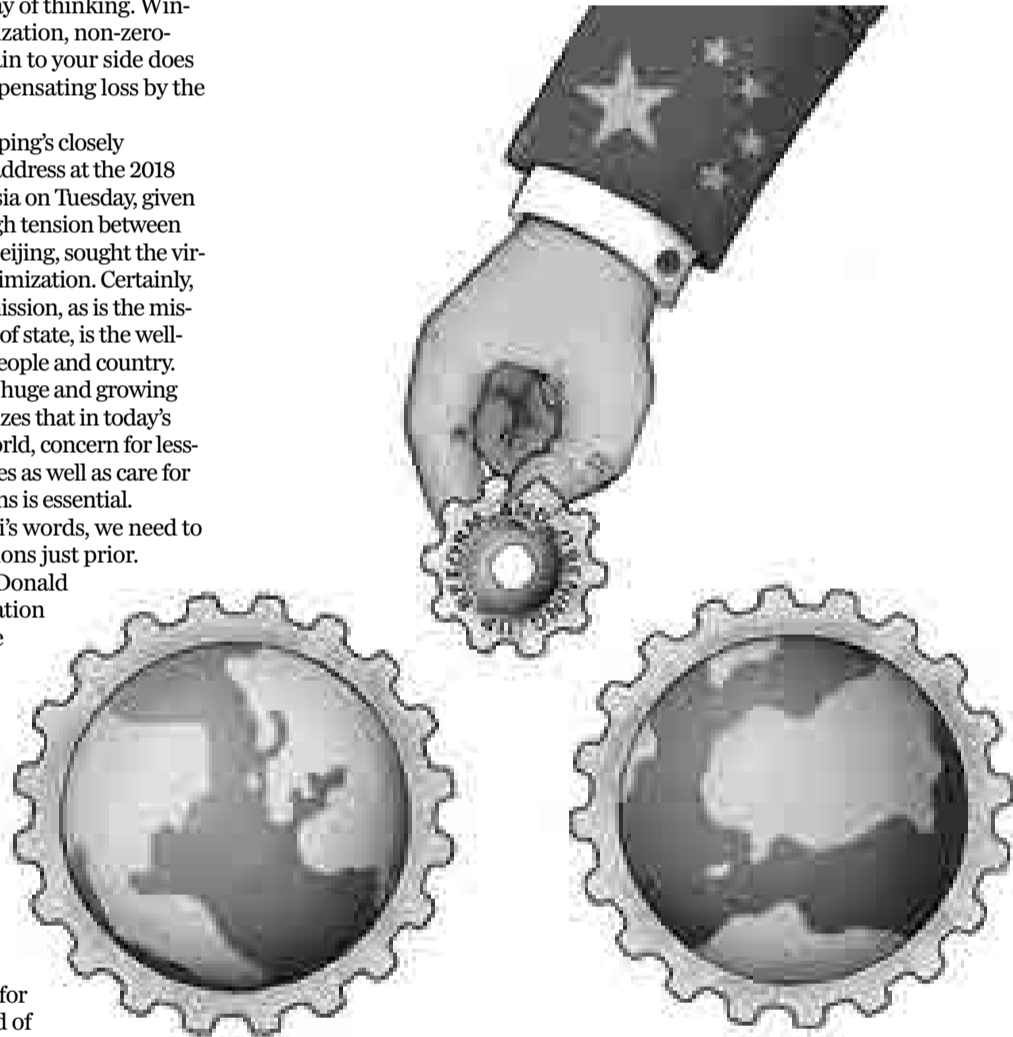
Although each of these five reforms addresses specific concerns of the international community, it was the totality of the pledges that triggered a worldwide surge in stock markets. Trump immediately tweeted his approval. Speaking of Xi, he said: "We will make great progress together!"

Let 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 are 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 human 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.

The author is a public intellectual, international corporate strategist and investment banker, and China commentator. He is the author of How China's Leaders Think and he is co-creator (with Adam Zhu) and host of CGTN's Closer to China with R.L. Kuhn. The views do not necessarily reflect those of China Daily.



ZHAI HAIJUN / FOR CHINA DAILY

Zhu Sendi

Made in China 2025 will boost manufacturing

With the fourth industrial revolution prompting adjustments and changes in the global manufacturing industry, some developed economies, including the United States, Germany, the United Kingdom, France and Japan, have already worked out strategies to boost their manufacturing sectors.

China has the world's largest manufacturing sector, both in scale and output, but the sector still lags behind those of industrialized countries in terms of profit margin, efficiency, quality, industrial structure, sustainable development and resource consumption. To develop an advanced manufacturing therefore, China needs to shift its focus from scale and speed to quality and efficiency.

In fact, the Chinese government has devised the Made in China 2025 plan exactly to achieve that goal. Based on hundreds of Chinese experts' in-depth studies of global manufacturing development trend, industrialized economies' strategies, China's manufacturing problems and advanced technology's influence, the plan is aimed at facilitating the transformation and upgrading of China's manufacturing sector. Which will not only boost the sector's competitiveness but also develop China

into a modern manufacturing powerhouse, by reducing resource consumption, improving labor productivity, enhancing innovation capability, expediting "informationalization", minimizing environmental impact and optimizing the industrial structure.

China has decided to launch a series of major projects before 2025 to facilitate the establishment of innovation centers, consolidate the industrial foundation, support high-end equipment innovation, and promote intelligent and eco-friendly manufacturing. It has also formulated programs to promote talents, and improve its information, new material, and pharmaceutical industries.

However, the realization of the goals outlined in Made in China 2025 depends on further reform and opening-up, which will boost innovation and inject fresh vigor into domestic enterprises so they can improve their productivity. Therefore, the market has to play a decisive role in resource distribution to create a good business and innovation environment. China also needs to conduct fair and win-win cooperation with other countries to sharpen the global competitiveness of its manufacturing sector.

Since it was announced three years ago, the Made in China 2025 plan

has strengthened the consensus among various parties on the importance of manufacturing to the national economy, promoting intelligent and green development, and expeditiously building a powerful innovation system. A series of indexes measuring the manufacturing sector's capabilities, such as research and development input per unit of output, the ratio of researchers to the total workforce, and the sector's productivity, already show a fair level of improvement.

In their efforts to promote intelligent manufacturing, some demonstration enterprises also have, to some extent, raised production efficiency, lowered operation costs, shortened the product development cycle, and reduced energy consumption.

Still, the transformation of China's manufacturing sector from quantity expansion to quality improvement is not that smooth. Compared with such manufacturing powers as the US, Germany and Japan, China's manufacturing still has a large room for improvement in terms of quality, optimization of structure and sustainable development.

And due to a lack of comprehensive knowledge about Made in China 2015, some foreign organizations have jumped to the wrong conclusion

about China's initiative. For instance, the US investigation report under Section 301 of the Trade Act of 1974 mentions Made in China 2025 several times, most of which are based on deductions that run contrary to facts. Disregarding World Trade Organization rules, the report has recommended additional 25 percent tariffs on 1,300 Chinese imports, including information and communications, and mechanical products — and the Trump administration has proposed extra tariffs on Chinese imports of \$100 billion.

If such high tariffs are imposed on Chinese products, they could weaken the competitiveness of Chinese enterprises, although China's countermeasures would have a corresponding effect on US companies.

Still, Made in China 2025 will continue to play a vital role in boosting the competitiveness of China's manufacturing enterprises and, along with the manufacturing sector's capability to capitalize on the opportunities and meet the challenges of the fourth industrial revolution, it will help China to become a modern manufacturing powerhouse.

The author is a senior engineer and a special consultant for the China Machinery Industry Federation.