China Again—and Again and Again

By William Reinsch February 26, 2019

China Again—and Again and Again

Chinatopix via AP

I tried to resist the temptation to talk about China this week, but it is simply too big and too timely a topic to pass up, even though we are at best only at Act III in the drama. The pace of negotiations has heated up, and both sides have expressed optimism that this will have a happy ending once the two presidents meet. So far, there have been surprisingly few leaks about what is going on. Treasury Secretary Mnuchin said on Friday that agreement on a currency provision had been reached, although he provided no details. In addition, rumored details of increased Chinese purchases of U.S. products have been dribbling out for weeks, but that's about it. The above rumors are probably true. Buying more U.S. products is the easiest thing China can do, and a commitment not to manipulate currency is something both sides have said would be a good thing. (There are ironies there, however. If what the United States really wants is a promise not to let the RMB depreciate above seven to the dollar, then we are essentially asking them to manipulate their currency but in our favor rather than theirs. That is not exactly a strong defense of market principles.)

More difficult to parse is progress on the so-called structural issues—those related to intellectual property theft, forced technology transfer, and various derogations from market principles like subsidies and support for state-owned enterprises (SOEs). Most non-government observers believe the two sides remain far apart on those and the associated enforcement provisions, even though there is a growing feeling that this exercise will ultimately end in an agreement, which, of course, the president will tout as the greatest ever regardless of its contents.

At this point, I believe the most likely outcome is that the Chinese give us some, but not all, of what we have been asking for by making commitments on IP theft, forced technology transfer, opening investment in China, and agreeing to do away with various forms of discrimination against foreign companies in China. With respect to those, the biggest argument will be over an enforcement package, which the United States will insist China to give us the unilateral right to determine compliance and to act unilaterally if we deem it not to be occurring. The Chinese will argue for a consultative process or even arbitration, which are both non-starters for Ambassador Lighthizer. That issue, as well as the question of what to do about the existing tariffs, are likely to end up in the laps of the two presidents.

Missing from this will be any unequivocal promises to turn away from a state-dominated economy—subsidies, support for SOEs, and implementation of “Made in China 2025”—and move in the direction of a real market economy rather than one that is just pretending. While doing that would make sense, the Chinese Communist Party's primary goal has always been maintaining control, and the past few years have made it abundantly clear that for Xi Jinping that includes continuing the government's heavy hand in directing the economy. There is a potential risk to him of pursuing that policy—slowing growth and the increased grumbling both within the party and the public that goes along with it—that may, in the long run, prove greater than the risk to party control that comes with shifting to a market economy; but that is their dilemma, not ours.

How this works out poses risks for President Trump as well, both short term and long term. In the short term, the biggest risk is a breakdown or a failure to produce a deal that will cause the markets to sag and renew fears of a trade war. Most analysts believe he will go to great lengths to avoid that. Conversely, an agreement would certainly cause a market bump and pacify a very anxious business community and agriculture sector. But that also contains significant long-term risks.

There is one clear path to lasting success for the president here—a good agreement that the Chinese actually comply with—but both those conditions are shaky. If the agreement is only about buying more stuff with a few intellectual property (IP) concessions thrown in, it will be heavily criticized, particularly by Democrats, as both a policy failure and a failure of the president's self-proclaimed negotiating skills. Even if it is better than that, the likelihood of full Chinese compliance is low. So, what might look like, and will certainly be touted as, a great success when it occurs may not look so great a year later if it becomes clear that very little has changed, or the United States has restarted the trade war with new tariffs due to Chinese non-compliance. The president, who does not have a history of looking ahead to the possible consequences of his actions, should do so very carefully in this case, as the negative outcome that is possible next year will be a lot closer to the election than the success of an agreement this March.

Reprinted with permission from the Center for Strategic and International Studies. William Reinsch holds the Scholl Chair in International Business at CSIS in Washington, D.C.

@RealClearWorld

Authoritarianism in the Information Age I @JacobShap, @GPFutures realclearworld.com/articles/2019/…

Authoritarianism in the Information Age I RealClearWorld
The U.S.-led global order has a distinct aversion to authoritarianism, and with g…
realclearworld.com

Feb 20, 2019

RealClearWorld
@RealClearWorld

Rather than attacking the West, Salafi-jihadist leaders are primarily focusing on local struggles, writes @KatieZimmerman realclearworld.com/articles/2019/…

The Salafi-Jihadist Movement Is Winning I RealClearWorld
U.S. President Donald Trump crowed victory over the so-called Islamic State in…

From Our Partners

Politics Policy Markets World Defense Energy Health Science Religion Future Education Sports History

Books Life

 © 2019 RealClearWorld.com. All Rights Reserved. About Us Privacy Policy Advertise With Us Contact RSS View Mobile Site