

US vs CHINA

From Trade War to Reciprocal Deal



Thomas W. Pauken II

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About the Author

Thomas Weir Pauken II is a commentator and editor for China's CCTV.com and regular contributor to Singapore-based Channel NewsAsia. He uses the pseudonym Tom McGregor when penning articles for the media. He was born and raised in Dallas, Texas, USA, and graduated with a BA in Political Science from Thomas More College of Liberal Arts in Merrimack, New Hampshire, USA.

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I appreciate that World Scientific Publishing has done a remarkable job in transforming my draft into a finely-crafted manuscript and more interesting book.

I am grateful to the Chinese and American researchers who spoke with me while I wrote the book to let me know if some of my theories were correct, and my friends from the US and China who stayed in touch with me to make sure I was not feeling too much stress.

Last but not the least, I owe the biggest gratitude to my wife, Zhou Yawei. When I first started writing the book in October 2018, I explained to her that I would be working late most evenings and every weekend until March the next year, since I was still working in a full-time job. I asked for her patience and she impressed me with her endearing support. And also to my son, Peter, who is now four years old. While his daddy was hard at work on a computer at home, he was just happy to be in my presence, quietly playing with his toys and watching cartoons. My family gave me the peace and serenity to write the book without too many distractions at home. Thank you, one and all.

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Preface

As a writer based in Beijing, commentator and editor for China's CTTV.com and regular contributor penning commentaries on Asia-Pacific affairs for Singapore-based Channel NewsAsia, I have had a close-up view of China, working and living with the Chinese since I had arrived in the capital city in October 2010.

The major reason I wrote this book is because I was reading a lot of reports and analysis about US–China trade talks and came to the conclusion that people were not getting the complete story. The truth in regard to facts has become open to interpretation and only interesting if the context can generate more readers' clicks on news websites and there are higher audience ratings for the broadcast media. Trade talks were viewed more as a sports game, with reporters selecting their teams, either cheering for Xi to win or hoping for a Trump victory. Many viewed it as zero-sum game, winner takes all, and that in itself sparked much bitterness between US and Chinese trade officials as the two sides felt like they were engaged in a death match. Many American reporters appear to have joined the “Trump Must Lose” fan club and they vilify the US President relentlessly, but when reporting on China they lack deeper understanding of the Chinese economy, its society and culture at large.

During the talks, American and Chinese trade officials were making numerous unforced blunders. It seemed that US trade officials had little understanding of China, and Chinese trade officials lacked a deeper comprehension of Trump's mindset and his political convictions.

Therefore, I have sought to provide a balanced perspective on both sides — the Trump White House and the Chinese government — in this book so readers can better understand the background of bilateral trade negotiations, and also the differences and similarities between the two richest and most powerful nations in the world.

At the onset of trade talks and when tensions had boiled over into angst-ridden bitter acrimony, I still believed that no matter how terribly matters might spin out of control, that eventually the two sides would find a way to reach a consensus. While the book was being written, progress was indeed made and it looks like both Trump and Xi are headed towards a consensus on a trade agreement. If Trump and Xi could sign a trade deal, it would become a win-win for both nations.

This book aims to help explain Trump and Xi and their policies in a fair manner and to bridge gaps of misunderstandings between the two sides. It gives deeper explanations of the Chinese and Trump mindsets that have often been overlooked, as well as summarizes basic historical and political backgrounds that have led to the eruption of US–China trade wars.

Through this book, readers can learn how, despite the chaos and ugly disputes that have been sparked, the two great nations could join hands to embark on peace and prosperity together for the betterment of our world. Hence, the book gives insights on US and Chinese politics and culture while demonstrating how two powerful leaders with very different backgrounds could be enemies one day and friends the next.

I hope readers will enjoy reading this book as much as I have felt gratified to write it. Every sentence, every argument and every detail I write in the book does come from my own thoughts and it was composed in a free and independent spirit.

US–China Trade War: A Timeline

Oct. 1, 1949: People’s Republic of China founded.

Feb. 21–28, 1972: President Nixon makes state visit to China.

Dec. 19, 1978: Chinese leader Deng Xiaoping announces reforms and opening up at the third plenary session of the 11th Central Committee of the Chinese Communist Party (CPC) in Beijing.

Jan. 1, 1979: President Jimmy Carter normalizes US ties with China.¹

Oct. 7, 2000: President Bill Clinton signs US–China Relations Act of 2000 to grant Beijing “permanent normal trade relations” with Washington.²

Dec. 11, 2001: China enters full-fledged membership of the World Trade Organization (WTO).

Sept. 2008: China becomes the largest foreign creditor of the US.

Aug. 2010: China becomes world’s 2nd-largest economy.

Mar. 14, 2013: Xi Jinping assumes office as President of China.

Nov. 8, 2016: Donald J. Trump is elected as US President.

Jan. 20, 2017: Trump is inaugurated as US President, and says in his inaugural address that his administration will support “America First” values.

¹Council on Foreign Relations, “U.S. Relations with China”, <https://www.cfr.org/timeline/us-relations-china> (Accessed on April 22, 2019).

²GovTrack, “H.R. 4444 (106th): China Trade Bill”, <https://www.govtrack.us/congress/bills/106/hr4444/text> (October 7, 200).

Apr. 6–7, 2017: Xi visits Trump’s Mar-a-Lago estate in Florida. Both sides agree to set up 100 Day Action Plan to resolve trade disputes.

Apr. 28, 2017: The US Trade Representative (USTR) is authorized to investigate whether steel/aluminum imports pose a threat to national security.³

May 22, 2017: US–China agreement is signed: China gives US greater access to China’s agricultural, energy and financial markets; China gets access to sell cooked poultry to US markets.

Aug. 18, 2017: USTR starts investigation into certain policies, acts and practices of Beijing relating to tech-transfers, intellectual property (IP) and innovations.

Nov. 8–10, 2017: Trump pays state visit to China, meets Xi.

Feb. 7, 2018: US imposes “global safeguard tariffs”: 30% tariffs on all solar panel imports except those from Canada (\$8.5 billion), and 20% tariffs on washing machine imports (\$1.8 billion).

Mar. 2, 2018: Trump tweets “Trade wars are good, and easy to win.”⁴

Mar. 17, 2018: Xi Jinping is reappointed as President of China; National People’s Congress votes to abolish term-limits for leadership, allowing Xi to serve a third term or even as President for life.

Mar. 22, 2018: Trump signs presidential memo directing following acts:

- file WTO case against China for discriminatory licensing practices;
- restrict investment in key technology sectors;
- impose tariffs on Chinese products (aerospace, IT and machinery).

Mar. 23, 2018: US imposes tariffs: 25% tariffs on all steel imports (except from Argentina, Australia, Brazil and South Korea), and 10% tariffs on all aluminum imports (except from Argentina and Australia).

³China-Briefing, “The US–China Trade War: A Timeline”, <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/> (April 12, 2019).

⁴Twitter, “Trump: Trade wars are good, and easy to win”, <https://twitter.com/i/moments/969519906097106944?lang=en> (March 2, 2018).

Apr. 2, 2018: China imposes tariffs: 15–25% on 128 products including fruits, wine, seamless steel pipes, pork, and recycled aluminum (\$3 billion).

Apr. 3, 2018: USTR releases initial list of 1,334 proposed products subject to potential 25% tariffs (\$50 billion). The list was revised on June 15.

Apr. 4, 2018: China proposes 25% tariffs on 106 products including soybeans, autos, and chemicals (\$50 billion). The list was revised on June 16.

Apr. 16, 2018: US Department of Commerce concludes Chinese telecom firm ZTE violated US sanctions, and bans US companies from doing business with ZTE for seven years.

Apr. 17, 2018: China announces anti-dumping duties of 178.6% on imports of sorghum from US.

May 3–7, 2018: US–China trade talks: US demands that China cut trade gap by \$200 billion within two years.

May 18, 2018: China's Commerce Ministry announces that they will stop tariffs on imports of US sorghum.

May 20, 2018: US–China trade wars placed on hold; Beijing pledges to buy more US goods.

May 29, 2018: US reinstates tariffs after truce.

Jun. 7, 2018: US allows ZTE to return to business.

Jul. 6, 2018: US imposes China-specific tariffs: US Customs and Border Protection (CBP) to collect 25% tariffs on 818 Chinese imports (\$34 billion); China retaliates with 25% tariffs on 545 US imports (agricultural, autos and aquatic products).

Jul. 10, 2018: USTR announces 2nd tariff list of 6,000 commodities from China: 10% tariffs on categories including consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronics equipment, and auto parts (\$200 billion).

Aug. 2, 2018: US announces tariffs revisions (\$200 billion). USTR suggests 25% tariffs, not 10%, on goods listed on Jul. 10. US

Commerce adds 44 Chinese entities to export control list as “significant risk” to US national security.

Aug. 3, 2018: China’s Ministry of Commerce announces second round of tariffs on imports of 5,207 US products (\$60 billion):

- 25% on 2,494 products (agricultural products, foods, textiles, chemicals, metal products, machinery);
- 20% on 1,708 products (foods, paperboard, chemicals, artworks);
- 10% on 974 products (agricultural products, chemicals, glassware);
- 5% on 662 products (chemicals, machinery, medical equipment).

Aug. 7, 2018: US finalizes second round of tariffs: tariffs increased from 10% to 25% on final list of Chinese imports (\$16 billion) to take effect on Aug. 23. China responds with reciprocal 25% tariffs.

Aug. 14, 2018: China files WTO claim against US over solar panels.

August 22–23, 2018: US and China impose second round of tariffs.

US: 25% tariffs on 279 Chinese goods including semiconductors, chemicals, plastics, motorbikes and electric scooters (\$16 billion).

China: 25% tariffs on 333 US imports including coal, copper scrap, fuel, buses, and medical equipment (\$16 billion).

China also files WTO complaint against US Section 301 tariffs on Chinese goods.

Sept. 17, 2018: US finalizes tariffs on Chinese goods (\$200 billion), to go into effect at an initial rate 10% on Sept. 24, and increase to 25% on Jan 1, 2019.

Sept. 18, 2018: China announces tariffs on US imports (\$60 billion).

Sept. 24, 2018: US and China both impose third round of tariffs. China releases a White Paper on US–China trade.⁵

⁵Xinhua, “Full Text: The Facts and China’s Position on China–U.S. Trade Friction”, http://www.xinhuanet.com/english/2018-09/24/c_137490176.htm (September 24, 2018).

Oct. 4, 2018: Vice President Mike Pence delivers a hardline speech against China at the Hudson Institute in Washington, D.C.

Nov. 1, 2018: Trump and Xi have a phone conversation and agree to ease trade tensions.

Nov. 9, 2018: US proposes export controls on a list of emerging technologies such as AI, robotics and quantum computing, since they are dual-use technologies and can be used for military purposes.

Dec. 1, 2018: Canada arrests Huawei's chief financial officer, Meng Wanzhou, daughter of company's founder, Ren Zhengfei.

Dec. 2, 2018: US and China agree to a temporary truce at G20 Summit in Buenos Aires. Both sides agree to refrain from adding new tariffs for 90 days, and to try to make a trade deal by Mar. 1, 2019.

Dec. 14, 2018: China temporarily lowers tariffs on US autos and resumes buying soybeans starting Jan. 2019. China purchases 1.5 million tons of soybeans.

Dec. 19, 2018: President Xi and the Chinese leadership celebrate the 40th anniversary of reforms and opening up at Great Hall of the People in Beijing.

Jan. 22, 2019: US cancels preparatory trade talks with China, citing disagreements over IP rules.

Jan. 30–31, 2019: US–China trade talks are held in Beijing. China offers to buy 5 million tons of US soybeans, and Trump offers to meet Xi in person later.

Feb. 11–15, 2019: US–China trade talks are held in Beijing. Xi meets with US top trade negotiators.

Feb. 21–24, 2019: US–China trade talks are held in Washington, D.C. Trump extends tariff deadline indefinitely.

Mar. 31, 2019: China extends suspension of additional tariffs on US autos and auto parts.

Apr. 1, 2019: China bans all types of fentanyl.

Apr. 10, 2019: US and China agree to establish trade deal enforcement to monitor enforcement of trade measures.

May 5, 2019: Trump announces on Twitter that he will raise tariffs on \$200 billion worth of Chinese imports, from 10% to 25%, claiming China was backing out on the trade deal.

May 10, 2019: Increased tariffs on Chinese imports goes into effect as of 12:01 am, Washington time.

May 13, 2019: China's Commerce Ministry announces that it will raise tariffs on \$60 billion worth of US imports in response to Washington's announcement.

May 16, 2019: Trump signs an executive order banning US high-tech firms from doing business with companies declared as "foreign adversaries."

May 17, 2019: Huawei and its affiliates are declared "foreign adversaries." Soon afterwards, Google announces they will stop doing business with the Chinese high-tech giant.

May 21, 2019: Beijing announces it will halt formal trade talks with the US until the White House acts in a more conciliatory manner.

Jun. 18, 2019: Xi makes a phone call to Trump, and both leaders agree to return to trade talks.

Jun. 25, 2019: US Treasury Secretary announces that Washington and Beijing are making progress in trade talks and both sides have agreed on 80% of the issues under negotiation, with a prediction that a trade deal could be signed by the end of the year.

Jun. 27, 2019: Trump threatens to raise tariff rates from 10% to 25% on a final list of Chinese imports valued at \$300 billion.

Jun. 28, 2019: Trump and Xi arrive at 2019 G20 Leaders' Summit in Osaka, Japan.

Jun. 29, 2019: Trump and Xi meet for a face-to-face meeting on the sidelines of G20. The two leaders agree to return to a trade truce; US

will not raise tariffs on Chinese imports in future, but present tariffs still remain in effect.

Jul. 1, 2019: Chinese Premier Li Keqiang announces Beijing's pledge to open China's markets further to foreign firms in a speech at the World Economic Forum in Dalian, China.

Jul. 2, 2019: US Commerce Department permits US high-tech firms to continue supplying Huawei Technologies with software and hardware components.

Jul. 30–31, 2019: US and China trade officials meet in Shanghai for trade talks. News reports say progress was made behind-the-scenes but no public statement was issued by either side.

Aug. 1, 2019: Trump announces on Twitter that he will impose a new 10% tariff on the remaining list of Chinese imported products valued at US\$300 billion, starting from Sept. 1. He claims China was not moving fast enough to reach a deal and was slow to respond with buying US agriculture and banning the sale of fentanyl to US markets.

Aug. 13, 2019: The United States Trade Representative announces certain products including clothing and cellphones are being removed from the tariff list based on "health, safety, national security and other factors" and will not face additional tariffs of 10%. Other tariffs will be delayed to Dec. 15 from Sep. 1 for certain goods. The announcement came minutes after Chinese Vice-Premier Liu He had held a phone call with US trade officials.

Aug. 24, 2019: China's Ministry of Finance announces that it will apply new tariffs of between 5% and 10% on US\$75 billion worth of goods from the US. The move is a response to the US government's announcement on Aug. 1 that it is adding a 10% tariff to US\$300 billion worth of Chinese goods. Washington eventually delays some of those tariffs, saying they will be implemented in two tranches: on Sept. 1 and Dec. 15.

Aug. 24, 2019: Trump says he will raise existing duties on US\$250 billion in Chinese products to 30% from 25% on Oct. 1, and that

tariffs on another US\$300 billion of Chinese goods, which start to take effect on Sept. 1, will now be 15% instead of 10%.

Aug. 25, 2019: Trump says at the Group of Seven leaders meeting that he could declare the escalating US-China trade war as a national emergency, although he adds he has no plans at the moment to do so.

US-China trade talks continue, but no agreement has been reached at the time this book goes into print.

Part I

Understanding the Background

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Chapter 1

China's Economic Miracle

China is playing the long game to enable their “peaceful rise” as a global superpower.

Lee Kuan Yew, Singapore's first Prime Minister in
The Grand Master's Insights on China.

We must concentrate on economic work for a long time to come.

Deng Xiaoping, leader of China (1977–1997),
giving a speech on October 4, 1979.

China adopted a capitalist system in the 1980s, and they went from 60% poverty rate to 10%.

Bill Gates, Founder of US-based Microsoft Corp.

Reform and Opening Up

As the saying goes, “Rome wasn't built in a day.” The same can be said for China's rapid development, as well as its higher than average annual growth in GDP rates that has been ongoing for the past few decades, and which the world has continued to witness until 2019. There has been much ado about China's record-setting pace of amassing huge trade surpluses with the US and so many other countries, but China's economic miracle and its emergence as the current global leader of exports and manufacturing did not happen all of a sudden, by accident or even by pure luck. The Asian giant enjoyed four decades of relative peace and prosperity on account of the grand vision set forth by Deng Xiaoping, who was recognized as China's leader from 1977 until his death in 1997. Deng had staked his entire political career, along with

his life, to usher in China's "reform and opening up" policy, which demonstrated support for the implementation of more free market principles to boost "production forces" of the domestic economy.

Deng formally introduced the reform and opening up policy when he delivered a keynote address at the Third Plenary Session of the 11th Central Committee of the Communist Party of China (CPC). He believed that the policy could transform the nation and inspire Chinese citizens to embark on a new path to prosperity. Deng, as a pragmatist, sought to build a strong China through sweeping free market reforms, but he also recognized that the process should be gradual rather than by moving too swiftly. And as the world looks back with hindsight, the amazing success story of China stands as a living testimony that Deng's reform and opening up policy was the right choice for the country, and has also benefited the world at large as well. Nonetheless, looking back at the year 1978, Deng had taken an enormous gamble to introduce the policy.

At the time, the Chinese were mired in severe economic hardships and despair, while trying to overcome such tumultuous times. Chairman Mao Zedong's Great Leap Forward campaign (1958–1962) period had led to widespread famine and the Cultural Revolution (1966–1976). It was also an era when self-appointed "Red Guards" youths were encouraged to punish alleged "impure" elements of Chinese society, people they had suspected were not pro-Maoists. Deng called this period China's "wasted years".¹ Consequently, in 1978, many Chinese government officials and citizens remained supportive of Maoist leftist ideology, while others feared to oppose them over concerns that they could be punished later on. Such attitudes can be explained as Mao's "hundred flowers are blooming" campaign had caused a huge shock to the Chinese psyche. During that period, citizens were informed they could publicly criticize the government, but afterwards many critics were

¹The Selected Works of Deng Xiaoping, "Emancipate the mind seek truth from facts and unite as one looking to the future", <https://dengxiaopingworks.wordpress.com/2013/02/25/emancipate-the-mind-seek-truth-from-facts-and-unite-as-one-in-looking-to-the-future/> (February 25, 2013).

rounded up and punished, and many thousands of Chinese were sent to re-education camps (prison camps), and were locked up for a number of years or even decades.

Accordingly, Deng had to play a delicate political balancing act, feigning support for Maoist ideals while still encouraging the Chinese to embrace more free market principles that would favor hard work and risk-taking, rewarding people for good results and asking citizens to take responsibility for themselves and their economic fates. Therefore when reviewing the transcripts of Deng's most famous speeches from the late 1970s and early 1980s, a reader will discover that the Chinese leader rarely used the phrase "reform and opening up." Instead, he often utilized pro-Maoist phraseology, such as touting the "Four Modernizations" (agriculture, industry, defense and science-technology) along with declaring a fervent endorsement of "socialism with Chinese characteristics".

At the early stages, Deng had stressed support both for reform and opening up, but also insisted on "stability and unity". Such notions seem contradictory in nature since he urged the Chinese to accept the free market in principle while he continued to shun pro-Democracy governance values. That meant the Chinese should try to get rich, but they should not assume Beijing would allow citizens to vote for their leadership in the years ahead. For many Westerners, such measures sounded incomprehensible as they have been led to believe that capitalism must co-exist in harmony with democracy. But Deng and the Chinese have proven the naysayers wrong. Deng often said, "seek truth from facts" and "let the results speak for themselves".²

In 1978, much of China was stuck in deep-rooted poverty, with most Chinese living in small and isolated farming villages where they could barely grow enough food for their families, let alone neighbors. Before 1978, Chinese farmers were forced to work in communes and not permitted to raise crops and livestock to keep for themselves or sell directly to local markets for a profit. Hence, they were not rewarded at harvest time, since all yields of agricultural production

² *Ibid.*

were expropriated by the State. Few Chinese were educated back then since the Cultural Revolution had targeted and tortured book-learners as so-called “anti-CPC” criminals. So how could they be expected to accept the reform and opening up policy and welcome free market principles as a solution for boosting family incomes, feeding the nation and setting up a nationwide industrialization plan?

Deng’s lofty vision appeared too difficult to realize, since the grassroots Chinese had spent much of their lives poor and uneducated. Deng’s role as leader of China was more like that of a teacher — he had to explain his grand plan for the nation’s reform and opening up, while giving practical suggestions as to how his ideals could be achieved with support from the Chinese people. Deng’s speeches were short and simple, not phrased in academic jargon but more like a call-to-action plan. He would cite the problems, say why it was so, and then offer his solutions. His arguments were based on logic, but to ensure support from Marxist believers in government, he had to use phrases that appeared to praise the prior leadership of Chairman Mao as well.

Some critics of Deng from the West had castigated him for not pushing faster on pro-democracy measures, but his political fate was aligned with members of the Central Committee of the CPC. If he had endorsed fervent anti-Maoist views, he could have been swept out of power, similar to what had occurred in the USSR when Nikita Khrushchev, who had lost his leadership role in the country after the Soviet Politburo formed a *coup d’etat* to force him out of office because they worried he had criticized the late Soviet leader Josef Stalin too frequently.

Deng’s delicate balancing act was similar to a high-stakes world champion poker match and he could not overplay his hand. Yet it was essential for Deng to push ahead on reforms and opening up. China could not have succeeded to this day without it. China’s fate was clearly in peril in 1978, when Deng alone had the vision and strength to lead the nation out of its misery and set the stage for a more prosperous era. But Deng had to start from ground zero, which meant the Chinese would require his guidance to march forward in the hopes of a brighter

future ahead. In 1978, only a few Chinese outside of Deng's inner circle saw the necessity for reform and opening up. And without support from the Chinese as a whole, there was no way Deng's leadership would have succeeded.

The Chinese mindset had to be dramatically altered, first and foremost, before implementing reforms for the nation. Hence, on the fateful day when Deng had spoken at the Third Plenary Session on December 13, 1978, his keynote address was "Emancipate the Mind, Seek Truth from Facts and Unite as One in Looking to the Future." Taking a closer look at transcripts, it appears that Deng had described how the Chinese were still stuck under a nationwide brainwashing, but for the record, he did not use the term "brainwash" anywhere in the speech. Nonetheless, his description of the Chinese mindset at that time did offer remarkable insights on how misguided views had caused near catastrophe to Chinese society at large.

The emancipation of minds has not been completely achieved among our cadres, particularly our leading cadres. Indeed, many comrades have not yet set their brains going; in other words, their ideas remain rigid or partly so. That isn't because they are not good comrades. It is a result of specific historical conditions.

First, it is because during the past dozen years, Lin Biao and the Gang of Four set up ideological taboos or "forbidden zones" and preached blind faith to confine people's minds within the framework of their phoney Marxism. No one was allowed to go beyond the limits they prescribed; anyone who did was tracked down, stigmatized and attacked politically. In this situation, some people found it safer to stop using their heads and thinking questions over.³

Despite being surrounded by the impoverished conditions in the country, the majority of the populace still assumed that anti-free market Marxism remained crucial for their survival, which sounds strange for people in today's society. When you look at photos of contemporary China and view images of soaring skylines in Chinese cities, including Shanghai, Beijing, Shenzhen, Xiamen, Wuhan, Xi'an and elsewhere, it

³ *Ibid.*

would be easy to assume that the Chinese people had long favored capitalism ever since Deng had introduced reforms in 1978. Yet as Deng said in his speech in December 1978, “many comrades have not yet set their brains going.” Meanwhile, Deng’s overtures of praise to Mao should not imply he always agreed with him, but for his political survival he had to claim he did.

His method to de-program the Chinese from an apparent “leftist” brainwashing was to pit the blame of Mao’s apparent mistakes on Lin Biao and the Gang of Four (leaders of the Cultural Revolution). In all his speeches, he never said Mao was wrong; instead he pointed his finger at Lin Biao and the Gang of Four. He insisted that they were solely responsible for the disturbing incidents and shocking violence that had erupted during the Cultural Revolution. But if Mao really had opposed the extreme actions of the Cultural Revolution, he had the power during his lifetime as China’s supreme leader to demand an end to such atrocities. Yet, he had never issued a proclamation for them to halt their nefarious activities.

Nevertheless, Deng sought to inspire a “pioneering spirit” in the Chinese so they could overcome their rigid thought processes. In his later speeches, he urged the Chinese to keep supporting reforms, and if they had harbored any doubts, he reminded them about the past horrors of the Cultural Revolution. He believed the Chinese must support a free market economy or risk returning to the dark days of the Great Leap Forward and Cultural Revolution. To want to grow rich should be the proper mindset for the Chinese, according to Deng’s perspective. He laid out a platform of reform that would remain ongoing as a gradual process for the next 50 years, even after his death.

He also warned that the Chinese economy would not bear the full fruits of rapid development and modernization until a decade or two after the starting date in 1978. The staged reforms would occur in three phases. The first was rural reforms (1978–1984) — setting a goal to boost crop and livestock production in order for all Chinese to have enough food to eat and to afford the daily necessities. Next would come the industrialization stage (1984–2001) — more Chinese cities would be built to encourage the opening up of factories to boost manufacturing. After that, Deng

forecast the final stage when the Chinese would reach a “moderately prosperous society (2001–present day and onwards).”⁴ His expectations were that China would transform to become an economic giant as well as a global hub for manufacturing and trade. From a historical perspective, China’s global prosperity era began when China was accepted as a full-fledged member of the World Trade Organization on December 11, 2001.

Success Breeds Success

After Deng had succeeded in emancipating the minds of the Chinese, China’s economy surged ahead to glorious heights. From 1978 onwards, the Chinese have not looked back, and for good reasons. In 1978, according to figures compiled by the World Bank and China’s National Bureau of Statistics (NBS), China’s GDP stood at \$149.54 billion, and as of the end of 2017 it was \$12.24 trillion. The average annual growth rate from 1978 to 2017 was 9.4% according to statistics cited by the World Bank.

Such high growth rates had made China a country that could enjoy the most robust, long-lasting and sustainable economic expansion in world history, with its GDP in 2017 reaching 82 times that in 1978. No other nation in our world today can lay claim to such a feat. Even during the Industrial Revolution of Great Britain in the 19th century and the US economic rise in the 20th century, their success stories could not compare with China’s economic miracle. As of July 2017, China was the world’s most populous nation at around 1.4 billion, according to United Nations (UN) census figures, along with a growing middle class. Media reports highlighted that over 800 million Chinese had escaped from extreme poverty, defined as those who earned less than one US dollar a day. That was a huge number when taking other

⁴The Selected Works of Deng Xiaoping, “Excerpts from talks given in Wuchang, Shenzhen, Zhuhai and Shanghai”, <https://dengxiaopingworks.wordpress.com/2013/03/18/excerpts-from-talks-given-in-wuchang-shenzhen-zhuhai-and-shanghai/> (March 8, 2013).

countries' population figures into consideration. The US was the third most populous nation with a population of over 322 million; the fourth was Indonesia at over 261 million and Brazil ranked fifth at over 210 million. When you combine the entire populations of the US, Indonesia and Brazil, that totals slightly under 800 million.

In 1978, hundreds of millions of Chinese were going hungry, earning barely enough for survival, and if people from the US, western Europe and Japan had visited rural villages back then, they would have been shocked by the miserable living conditions the local people were facing there. Chinese farmers were living in small shacks or huts that could barely keep them warm in cold winters, and during the heat of the summer months, they had no air-conditioning. The plumbing was primitive, and even if they had access to clean water, personal hygiene was nearly non-existent.

But how could they be expected to take showers without regular running water in their households? In the first stage of reform and opening up, Deng pushed ahead on rural reforms by announcing a proposal called the "household contract responsibility system" in which farmers only had to meet a quota on agricultural production, and anything produced beyond that could be sold in local markets at a profit or retained for household consumption. The results were immediate; China's agricultural production levels rose dramatically, giving farmers more cash in hand to take out bank loans for more modern farming equipment, and they learned new skills to get higher yields on their crops and livestock. This set the stage for deeper reforms such as urbanization. When Chinese farmers could produce enough food for its citizens to eat, people no longer felt satisfied with their income levels. It is human nature that when people start earning higher incomes, they become even more ambitious to make more money. When improved living standards had sprouted in China's farmlands, many Chinese became more ambitious and set their sights on searching for better jobs elsewhere that promised higher salaries.

In 1984, China's urbanization had begun to emerge as more areas developed. The Chinese government set up five Special Economic Zones (SEZs) located mainly in China's southern and southeastern

coastline, with the Shenzhen–Shekou District becoming the most successful venture. This was the initial stage that marked China's entry into the industrial age, when the country would inevitably transform into a global hub for manufacturing and exports. Yet, at the beginning, few people outside of China, and also many Chinese, did not believe the country would succeed with such spectacular results. The SEZs were formed to lure in more foreign direct investments (FDI) with larger capital funds from overseas, so small and medium-sized firms, Chinese privately-owned companies, could take out loans from foreign banks or sign joint ventures with foreign companies in order to open factories that could manufacture products for domestic consumption and for exports abroad. Companies setting up in SEZs would be granted preferential treatment, including lower taxes and regulations alongside support for Customs clearance, making it easier and quicker for firms to deliver goods overseas.

In hindsight, the concept sounds brilliant, but when Beijing initially launched the formation of SEZs in the early 1980s, very few foreign-based companies expressed optimism that Deng's pilot project would prove profitable for them, while many Chinese natives held similar sentiments. Consequently, China was confronting numerous challenges to lure more FDI inflows for the country. Although China had a large population and very abundant natural resources, which meant factories could hire workers at low wages, there were no guarantees the factories would become money makers for operators. In the early 1980s, Chinese cities were nearly as primitive as the country's rural farm villages. Many city residents were poor. In photos of Chinese cities at that time, there are many images of people riding bicycles. Only a few Chinese, even those who lived in Beijing or Shanghai, could afford a car for private transport.

Accordingly, when SEZs started to appear, the owners of factories faced a logistics nightmare. China's infrastructure was in terrible shape. For factories to run smoothly for mass production, they should operate 24 hours a day, seven days a week, and that would require a reliable transmission grid for power and plumbing systems. But electricity supply and clean water were still not running efficiently back then. More

roads had to be built to transport goods by truck to nearby shipping ports for export or to railroads for delivery to Chinese consumers nationwide, via warehouses and shops. Additionally, China had few shipping ports and airports in the early 1980s. When representatives from foreign companies visited SEZs at that time, they most often considered the investment too risky, rather than a grand opportunity to score quick profits.

Nonetheless, Deng and many Chinese remained undaunted despite the difficulties of attracting huge capital funding. In the Hollywood film, *The Field of Dreams* starring Kevin Costner, one of the most famous lines from the movie, “If you build it, he (they) will come,” and that seemed the mentality of the Chinese “pioneering spirit” at that time. They had refused to give up on their dreams to earn higher incomes, and Deng was well-known for saying that during the reform and opening up process that “some provinces in China will get richer before others.”⁵ But he noted that was necessary so that, in the long-term, all Chinese could reap the rewards with more comprehensive development of the nation. With such determination, the SEZs, starting at around 1988, began to become prosperous, welcoming massive sums of inbound FDI, which resulted in hundreds of thousands of new factories sprouting up across the coastal regions of eastern and southern China.

This was the great awakening for the Chinese which opened their eyes and emancipated their minds, and caused them to adapt to the nation’s new-found enthusiasm for free market idealism. Accordingly, hundreds of millions of impoverished Chinese farmers walked away from their hometown rural villages, taking all their possessions, and moved to bigger cities in the hopes of finding better jobs to earn more money for their families and relatives. Hence, a mass migration in China took place. This may be something we may never see happen again in our lifetimes or in the future — the world’s largest migration of people

⁵The Selected Works of Deng Xiaoping, “Excerpts from talks given in Wuchang, Shenzhen, Zhuhai and Shanghai”, <https://dengxiaopingworks.wordpress.com/2013/03/18/excerpts-from-talks-given-in-wuchang-shenzhen-zhuhai-and-shanghai/> (March 18, 2013).

uprooting themselves from their hometowns to start anew in Chinese cities. And it played a pivotal role in the country's rapid development, most notably during the 30 years from 1985 to 2015. From 1978 to 2017, according to demographics experts' estimates, cited by China's state-owned CCTV.com, over 640 million Chinese farmers moved to the cities. That is nearly double the entire population of the US, according to UN census numbers as of July 2017. The overall landscape of the nation had changed as well. In 1978, only 17.9% of Chinese (170 million) lived in urban areas, but as of 2017, over 58.5% of them (810 million) had moved to cities. And a number of cities in the country had grown to become megacities with populations of 10 million or more.

According to China's 2010 census figures, the country had 10 metropolitan areas that qualified as megacities. Listed from most populated to least, these were: Shanghai, Beijing, Chongqing, Tianjin, Guangzhou, Shenzhen, Wuhan, Chengdu, Dongguan and Nanjing. It was expected that in the 2020 census, another five to seven cities would be added to the megacity rankings, which would be no small feat considering how the build-up of larger cities to attract bigger waves of migrants could infer that more jobs would be available for them. Additionally, city planners must take into account an increase in housing construction, generating more tax revenues to fund public services, and also the negative impacts of more people arriving in a city such as much more pollution, litter, crime rates and over-congestion.

China's urbanization drive has been largely successful, but with many migrants arriving in cities without their families, that has increased societal chaos as some saw their new freedoms as an opportunity to commit crimes, frequent prostitutes and to drink alcohol in excess. Migrants need to relieve the common stresses of loneliness, alienation and overwork from jobs that were presumed to be dirty, dangerous and demeaning. In the US too, American cities have grown larger as swarms of immigrants from foreign countries flock to the US, and that has sparked rising crime waves and other societal ills. Just look at recent crime statistics of Chicago, Los Angeles and Houston to see the dire results America's huge immigration wave which began in the late 19th century and has continued to the present day.

This explains Deng's vision that reform and opening up should co-exist with "stability and unity." Many Chinese citizens had looked at their government just like a big brother/sister or parental figure; they understood that citizens would be rewarded for hard work and good behavior. But if they committed crimes or attempted to create anarchy, law enforcement officials would punish them with swift and harsh justice. It would be like a strong man who smiles — he can be nice and friendly when shaking your hand, but if you try to fight him, he can punch and knock you out.

China's economy has expanded in the past four decades to startling levels, but residents in China's largest cities, including Beijing, the capital city, can walk the streets alone and even at night and not feel frightened. Public safety officials are always on high alert and nearly everywhere one walks, there are uniformed police officers or security guards patrolling the area, while surveillance cameras are posted all around China's cities. China's economic miracle has been amazing, but it was social cohesion that played an instrumental role in building a stronger nation as well.

Therefore, Deng had succeeded in setting the right mindset for the Chinese even as they had become richer and flocked to the cities. Deng often praised the "Singapore Model" in his speeches. Deng had met and admired the founder and first prime minister of the city-state, Lee Kuan Yew, who had led Singapore to prosperity as a Southeast Asian hub for international trade and finance. Deng had sought to implement the "Singapore Model" for China nationwide, since it was believed that the city-state had succeeded by implementing a system that encouraged free market principles along with a conservative-leaning society that favored "law and order."

Meanwhile, the success of China's SEZs' and cities did indeed make China great again, particularly as a manufacturing and export superpower. Starting in the year 2011, China emerged as the world's largest producer and exporter of merchandised goods. But even as recently as the 1990s, the country did not rank in the top 10 of these global categories although its annual growth rates were rising. But then came along

a pivotal moment when China witnessed an epic expansion, with FDI inflows, manufacturing and cross-border trade coming into the foray.

WTO Entry; Winning Hand

Another turning point for the nation occurred on December 11, 2001 when the World Trade Organization (WTO) accepted China as its 143rd member. The Secretary General of the WTO, Mike Moore, issued a press release to mark the occasion.

This is an historic moment for the WTO ... China is one of the fastest growing economies in the world., has made tremendous progress in the last decade in reducing poverty thanks to an economic system increasingly open to trade and foreign investment.⁶

China's day of becoming a member of the WTO stood as a historic moment, since the timing was impeccable when the political trend of globalist idealism was sweeping across the world. That favored stronger support for global governance mechanisms, such as granting the UN greater powers to implement an international rules-based order. The UN as a platform for the globalist movement had encouraged the creation of new mechanisms that would appear to endorse principles that leaned towards more free trade and open borders policy. On account of this understanding, many governments may have concluded that it was a long-term goal for all countries to abolish tariffs and to create open borders. The expectation was that this would allow for free and unfettered access for the delivery of goods exported abroad with very little interference from Customs officials at all ports and checkpoints.

The unabashed dream of "free trade and open borders" was never officially declared as a stated objective for sovereign governments and the UN, but by taking a closer look at the origins of the WTO and its

⁶World Trade Organization, "WTO Ministerial Conference approves China's accession", https://www.wto.org/english/news_e/pres01_e/pr252_e.htm (November 10, 2001).

mission statement, one could conclude that the leaders and supporters of the globalist movement appeared to want to head in that direction.

According to the WTO's website, the organization was founded in January 1995 as a replacement for the General Agreement on Tariffs and Trade (GATT), which was formed after the end of World War II. GATT was established to set up international guidelines on cross-border trade policy by officially recognizing tariffs that had been set by sovereign governments and the Customs border and inspections regulations, which were implemented by each nation. In other words, GATT did not mandate trade law or trade agreements, but simply made sure trade policies set by each nation were understood by all participants.

The purpose of the WTO was to serve as the final judge and arbiter over trade disputes between separate sovereign governments, which meant this organization held greater authority to enforce its own trade policy on member states. Therefore, if Washington imposed higher tariffs on imports, WTO member states directly impacted by the action would have the right to file a complaint with the WTO to seek a halt, claiming "unfair trade practices." Since China became a WTO member, Beijing has frequently taken such actions to avoid paying higher tariffs to other nations, especially the US. Yet other countries have filed similar grievances against Beijing, proving that "what comes around goes around." But overall, the biggest beneficiary from the expanding powers of the WTO and the rise of the globalist movement has been China. Beijing could cite the WTO to explain why the country has enjoyed remarkable success in the outcome of its entry there. According to the WTO Mission Statement:

The mission of the WTO aims to encourage smooth and free trade by promoting lower trade barriers and providing a platform for the negotiation of trade and it resolves disputes between member nations, when they arise. The goal is to help producers of goods and services, exporters, and importers conduct their business.⁷

⁷BrainMass, "World Trade Organization's (WTO) mission statement", <https://brainmass.com/business/wto-and-gatt/world-trade-organization-s-wto-mission-statement-65554>.

Beijing had enjoyed a golden opportunity to fuel momentum for its domestic manufacturing sector and exports, because receiving WTO membership served as testimony that it deserved to join the ranks of nations that favored free trade principles. Even in the days leading up to its formal WTO invitation, many governments all over the world had expressed reservations about Beijing. They feared the country could not be trusted as a key player in the international business community since China had a different political system from the democratic form of government with leaders elected to office. Meanwhile, many non-government organizations (NGOs) and religious organizations had long accused Beijing of acting as a bully by not supporting a broad spectrum of basic human rights for Chinese citizens. They had complained of China imposing restrictions on freedom of speech, the right to assembly, and granting people more freedom to choose over how they wish to worship.

Before China's entry into the WTO and after the Tiananmen incident in June 1989 when the government had cracked down on pro-democracy protesters, the US government had adopted a trade policy that would review and vote on China's Most Favored Nation (MFN) status each year. The annual legislative vote was effective in giving more influence to Washington over bilateral trade issues with Beijing. If the US Congress felt Beijing was not acting in good faith, they could revoke China's MFN status and, as such, China had strong motivation to play nice with the US.

This balanced arrangement was shattered after China joined the WTO since one of the benefits of Beijing's entry was that the US could no longer support an annual US Congress vote on China's MFN status. Washington had to recognize Beijing's MFN status on a permanent basis. Before December 2001, many US-based multinationals were reluctant to pour major investments into and open up huge factories in China, fearing they could lose out if, a year later, US Congress revoked China's MFN status. In the immediate aftermath of China's WTO entry, many American companies injected substantial investments to open factories in the country.

By taking a closer look at China's economic trends and annual GDP growth trends, it is easy to conclude that China had become the biggest beneficiary of becoming a member of the WTO, while the US could be considered one of the unfortunate victims. Tens of millions of new factory jobs were created in China, while at the same time tens of millions of Americans that were employed in the US manufacturing sector lost their jobs. Additionally, there was a huge spike in China's annual growth rates after China's WTO entry. As reported by *Trading Economics*:

GDP Annual Growth Rate in China averaged 9.61 percent from 1989 until 2018, reaching an all time high of 15.40 percent in the first quarter of 1993 and a record low of 3.80 percent in the fourth quarter of 1990.⁸

And by reviewing the figures China's GDP growth from the years 1960 to 2017, there was a surge in income growth for the Chinese, starting in 2003.

Interestingly enough, the growth trends had nearly matched the expectations of Deng's long-term forecast. He predicted a slow growth pattern for the nation in the 1980s with its rural reforms, and higher growth rates in the 1990s during China's industrialization and urbanization reforms. In the third stage when the country had entered a moderately prosperous society, the national economy was expected to skyrocket and that started in 2003, two short years after its WTO entry. China's booming economy had the huge impact of its WTO membership. It would have been impossible for China's growth rates to start spiking in 2002 on the grounds that even after more American and other foreign firms started to purchase land in China to construct huge factories, it would still take a year or two for foreign firms to file for and receive construction and land permits from local governments and to build the factories, which would only be able to run at full operational capacity starting at around 2003.

⁸Trading Economics, "China GDP annual growth rate", <https://tradingeconomics.com/china/gdp-growth-annual> (January 21, 2019).

Not only did Chinese migrants enjoy the benefits of getting hired when more factories had opened up, but the local, provincial and national governments of China benefited as well as they could reap the rewards of enormous FDI inflows that generated higher tax revenues. Additionally, the workers, after receiving their salaries, would flush the money back into local communities by spending at shops and restaurants and remitting large portions of their incomes to their families back home in rural farm villages. Accordingly, foreign firms had created a cycle of prosperity for large parts of China.

After the WTO entry, the Chinese really could grow richer and, in return, the international media started to publish numerous “rags to riches” stories about the country and its citizens. The rise of China as an economic powerhouse and in diplomatic influence in regard to soft power had become recurrent themes for media narratives about China. The world was witnessing a “sleeping dragon” waking up to transform into a major power player in the world. This rapid development was for real, since local people could see it with their very own eyes.

Four decades ago, Shenzhen was just a poor sleepy fishing village with a population at around 20,000, but it became one of the global hubs for science and technology, commonly referred to as China's Silicon Valley.

A few decades ago, Shanghai was an ordinary city and without much of a cosmopolitan presence (international glamour), but after Beijing had introduced reforms in finance and banking, as well as re-opening the Shanghai Stock Exchange, the city became recognized as one of the financial centers of the world, sitting atop global rankings alongside New York City, London, Tokyo, Hong Kong and Singapore. The WTO had brought forth the economic miracle of China, but ironically when reviewing China's trade and manufacturing figures in greater detail, the real winner appears to have been “Big Business”, not the Chinese alone.

Foreign-based multinationals, largely from Western countries and Japan took advantage of China's renewed “open for business” model. Labor wages were relatively low and, after the success of China's urbanization reforms and SEZs, foreign firms could open up factories and operate them at lower costs. They had access to better road and

railroad networks and shipping ports along China's southern and eastern coastlines that made delivery of export goods overseas much more efficient and quicker. The Chinese government and local businesses had maximized and prioritized the expansion and improvements in logistics operations, delivering goods from the factory floor to shops all over the world. By boosting logistics from 2001 onwards, China lured in even greater amounts of FDI inflows, showing that success did breed success.

Meanwhile, subsequent media reports disclosed that China's trade surpluses, especially with the US, were continuing and at record-setting levels in the immediate years after China's WTO entry. Hence, one discovered that China had accumulated huge export figures, based largely on foreign-based multinationals opening factories in China and then exporting goods back to their home countries, which would explain the significant trade imbalances. The business news website *Value Walk* posted details on China's trade surplus with the US in the year 2017.

Much has been made of China's trade surplus in goods with the U.S., which topped \$375 billion in 2017. That's a large figure, to be sure, but it does not accurately reflect the true nature of bilateral commerce between the two nations. Local sales of goods and services by U.S. foreign affiliates operating in China are missing from the equation. These sales totaled \$307 billion by our estimates — well above the U.S. exports of goods and services to China (\$188 billion) in the same year. In 2017, U.S. goods exports were \$130 billion. In terms of trade in services, the U.S. actually posted a trade surplus with China, with exports of \$58 billion and imports of \$17 billion, according to Bureau of Economic Analysis.⁹

Stunning figures to say the least — China's trade surplus had stood at \$375 billion in 2017, but US foreign affiliates had sales totaling over \$300 billion from selling to Chinese consumers, while the same

⁹Value Walk, "The U.S. trade deficit with China is a dangerous scorecard as the mainland remains an unlikely source of U.S. profits", <https://www.valuwalk.com/2018/09/understanding-finer-points-u-s-sino-trade/> (September 23, 2018).

companies had exported over \$100 billion worth of goods back to the US. By taking such figures into consideration, one could argue that the US had garnered a trade surplus with China but that is not an accurate assessment here. Although many factories were owned by non-Chinese companies, the manufactured products were still “Made in China”. Consequently the nation still had a \$375 billion trade surplus with the US regardless.

Should China really be blamed for racking up enormous trade surpluses with the US and other nations? Let us take the perspective of the Chinese government and its citizens here, who were heeding the calls of Deng Xiaoping. Deng had introduced the reform and opening up policy, urging the Chinese to accept free market principles and try to get rich. The pursuit of higher incomes and more wealth had become top priorities for nearly all Chinese families. Before China's WTO entry, many Chinese were still living in impoverished circumstances.

As the globalist age had marched forward, a number of US Presidents supported China's economic liberalization by encouraging favorable bilateral trade deals with the country even at the risk of Beijing maintaining high tariffs on imports and still imposing strict rules on American importers. Accordingly, China's trade surpluses had soared higher and higher. The US Presidents, including George H.W. Bush (1989–1993), Bill Clinton (1993–2001), George W. Bush (2001–2009) and Barack Obama (2009–2017), had all favored such policies, using the argument that more Chinese imports would deliver lower prices for consumer goods in the US overall and might even encourage Beijing to pursue pro-democracy reforms.

Additionally, Beijing had ensured its exports would be cheap by lowering the value of China's currency, the yuan. At the onset of China's reforms and opening up in December 1978, China's yuan was pegged to the US dollar at a rate of 1.5 yuan, but had dropped in value to as low as 8.7 yuan in 1994. According to currency exchange rates as of October 5, 2018, the exchange rate stood at around 6.8689 yuan. When a nation's currency is valued lower, that means its exports are

cheaper, but imports are more expensive for domestic consumers. Accordingly, when the American media and politicians talk about US trade deficits with China, they often cite China's yuan devaluation as a major contributing factor.

Yet, Beijing could not devalue its currency without taking action, and this was decided by China's Central Bank, the People's Bank of China (PBOC). The PBOC has for the past few decades purchased huge amounts of US currency with their holdings of US Treasuries (US bonds), sovereign-back government debt requiring the borrower (Washington) to pay back the lender (Beijing) at specified interest rates. The Chinese have amassed huge trade surpluses by buying up US debt with yuan holdings that converted to the US dollar. Starting in 2009, China had emerged as the world's largest exporter and have held the top ranking ever since, as of the end of 2018. When looking at China's trade surpluses from this perspective, it would be easy to understand why many ordinary Americans, especially those who had lost manufacturing jobs, would raise alarm bells and say that was not fair trade. Nevertheless, prior US Presidents, who had an opportunity to enforce a tougher trade policy on China in order to rectify the devaluations of the yuan as well as Beijing's protectionist measures on importers, had failed to do so. China's foreign exchange reserves had risen from \$0.17 billion in 1978 to \$3.14 trillion by the end of 2017, with an estimated \$1.2 trillion in holdings of US Treasuries, as reported by the *Global Times*. China has led the world in forex holdings since 2016 for 11 consecutive years and counting.

The Chinese government also exposed a loophole with its entry into the WTO. According to WTO rules, all member states are expected to endorse a liberalized free trade and currency exchange policy and should not subsidize companies that export goods abroad, since the government funding would allow them to sell products at lower values. The WTO had sought to impose such rules to prevent countries and companies from "dumping goods" into the market that could help them score a larger market share and potentially a monopoly on busi-

ness practices. If they did so, they could charge much higher prices to consumers later on.

China benefited enormously from Washington's "look away" approach. In the past four decades, China's trade figures have risen annually at 14.5% on average. A crucial part of China's economic expansion has come about on account of the strong presence of its state-owned enterprises (SOEs) which include companies that manufacture steel, green energy (solar, wind and hydropower), large equipment and so much more. The SOEs in China have remained rich and powerful even up to the year 2018. According to figures published in media reports, SOEs had been encouraged to seek profits or they would get shut down. SOEs had also received preferential treatment from the government and state-owned banks.

In China's banking sector, the nation's five biggest banks are all state-owned, accounting for 68.5% of domestic banking assets, as disclosed by a US Congressional Research Service report. In 2017, China had over 150,000 registered SOEs that generated over \$7.2 trillion in revenues and employed over 16.2 million Chinese workers. When China joined the WTO, Beijing had to pledge it would pursue the privatization of its SOEs that were engaged in exporting goods abroad, but by looking at statistics, China's SOEs' have expanded instead and have continued to capture larger market share in global markets while reaping in much higher profit yields.

The WTO and many countries in the Western world have not punished Beijing severely enough over their continuous transgressions. One could conclude that China was responding to any criticisms based on the simple premise that the country was "too big to expel," meaning that expelling China from the WTO and other global governance mechanisms would cause more harm than good. Therefore Beijing would not change its ways since there was no real pressure for doing so. For about 15 years after China's WTO entry, Beijing enjoyed the fruits of its hard-earned labors, while other sovereign nations did not confront them in a serious manner over trade concerns. Let us take a closer look at the Chinese imports that

are popular with American consumers, as well as American imports popular in China. The Heritage Foundation has the details for US–China trade in 2017 here:

At the top of the import list from China are cellphones (\$70 billion), computers (\$46 billion), and telecommunications equipment (\$33 billion). But other major imports include toys, games, and sporting goods (\$27 billion), clothes (\$24 billion), and furniture (\$21 billion).

The U.S. mostly exports to China civilian aircraft and engines (\$16 billion), soybeans (\$12 billion), passenger cars (\$11 billion), and semiconductors (\$6 billion).¹⁰

So it appears that China's SOEs, which have focused on exporting steel and green technologies to US, did not play a large part in bilateral trade imbalances. The biggest winners appear to be Chinese manufacturers, but it should be noted that US multinationals, including Mattel, Hasbro and Colgate have opened factories in China. For example, Americans love to purchase toys for their children, but ironically they often made-in-China toys with the parent company owned by a US corporation. Hence, there is some confusion over who has really benefited from China's WTO membership.

Nevertheless, it had seemed that China would be sailing ahead for many years without much interference and headwinds on their trade horizon. By pursuing the path to prosperity, many economics experts were predicting the country would become the world's largest economy in total GDP and surpass the US by 2030, which also corresponded with Deng's forecast that the country would rank as number one economically in the world at around 50 years after the start of reform and opening up policy. Coming into the year 2016, the future looked rosy for China.

¹⁰The Heritage Foundation, "5 things you should know about U.S. trade with China", <https://www.heritage.org/markets-and-finance/commentary/5-things-you-should-know-about-us-trade-china> (March 14, 2018).

Changing Tide with Trump and Xi

Donald Trump had won the White House in November 2016 and was set and determined to challenge China on trade matters. Whether or not US multinationals had profited much by opening factories in China was of no concern to him. As a proponent of “America First” principles, his main objective was to make the US manufacturing base stronger again. He viewed American Big Business with disdain since those companies had cared more about profits than their homeland.

But blaming China could be unfair here, since the Chinese simply gave an opportunity for foreign companies to operate in their country, and US companies had poured into China, resulting in the remarkable growth of the Chinese economy.

Nonetheless, President Trump sought to shift the paradigm by reminding Americans and companies worldwide that the US was still a good place to conduct business and to open factories. Meanwhile, Chinese President Xi Jinping who had become the nation's leader in 2013 and started his second five-year term in office in March 2018 wanted to reaffirm Beijing's commitment to be a good nation for business as well.

Hence, Trump and Xi both sought to serve as beacons of light for their respective nations. Trump wanted America to be a winner again as a global leader in manufacturing and exports, while Xi hoped to maintain the *status quo*, since the country had long enjoyed generous trade deals. But the world never remains static, and China had to confront a new reality with Trump refusing to back down on his proposed trade wars.

Additionally, to understand the global significance of the US–China trade wars, we have to come to grips with the cultural differences between the two countries and how that has led to fierce and acrimonious clashes between the two most powerful and richest nations in the world. Yet cultural differences do not connote that it is impossible for them to find areas of common ground and consensus.

However, the US, as the sole superpower in 2018, wants to stay on top as the most influential nation and top economy in the world for

many years and decades to come. At the same time, China is emerging as a superpower in its own right and its rise seems inevitable, even if Washington has tried to stop it.

So the US–China trade wars are really about which nation would emerge as the pre-eminent superpower for the 21st century. If Washington wins, that would imply the American Dream continues to capture the hearts and minds of people all over the world. Yet, President Xi has his own ideas about a Chinese Dream, which he hopes will inspire people from all corners of the globe as well.

We have to ask ourselves: What vision would inspire others more in the future to come? Will it still be the American Dream, or the Chinese Dream?

Chapter 2

“America First” Agenda

The forgotten men and women of our country will be forgotten no longer.

US President Donald J. Trump,
Inaugural Address, January 20, 2017.

You were the first group of Americans I came into contact with. To me, you are America.

Chinese President Xi Jinping meets farmers in Muscatine,
Iowa, October 17, 2017.

You are an ordinary person till the day you realize that you have the power to change the world!

Mehtmet Murat ildan.

Election Results Shocker

The Democratic Party’s 2016 nominee for US President, Hillary Clinton, former US Secretary of State, had woken up early on the morning of Tuesday, November 8 ready to cast her ballot to vote at Grafflin Elementary School in her adopted hometown, Chappaqua, New York. She was later joined by her husband, Bill Clinton, a former two-term US President, along with her closest confidante and aide, Huma Abedin. Mrs. Clinton, who on the campaign trail, preferred to be called Hillary, had many reasons to feel optimistic. Nearly all polling data in prior weeks had shown her not only taking a lead against the rival GOP nominee, Donald J. Trump, a billionaire real estate mogul, but media reports were in near unanimity believing that she would win

by a huge landslide. Local residents had greeted Hillary with warm pleasantries, while a group of elementary school students had sung a song for her.

They all felt confident that before the day ended, the news media would declare her a winner and she would become the first woman in American history to be elected to the White House. Hillary's supporters were brimming with enthusiasm since her victory already appeared to be a foregone conclusion, according to what they had seen from earlier polls and media reports.

Hillary's voters hailed mainly from the east and west coasts of the US, as well as coming from many big cities. According to post-election data, most of Mrs. Clinton's voters were highly-educated, young (median age of 18–34 years), minorities, both low- and high-income, urban and LGBT (lesbian, gay, bisexual and transgender). They were attracted to her progressive liberal (leftist) agenda that had endorsed identity politics, political correctness, feminism, globalism, and a whole host of principles championed by the Democratic Party platform. Hillary was the face of the Democratic Party and proud of it.

The liberal-leaning newspapers, including *The New York Times*, *Washington Post*, *Los Angeles Times* and even the *Dallas Morning News*, which is based in the Republican Party-leaning state of Texas, had all endorsed her bid for the White House. Cable news channels — CNN, MSNBC — and major TV networks — NBC, ABC and CBS — had aired numerous news reports throughout the campaign season that shone a positive light for Hillary while registering scorn and rage against her main challenger — Mr. Trump. Hillary had also scored record totals on the fund-raising trail, receiving around \$1 billion that flushed into her campaign coffers. She was the favorite candidate of the Big Media, Big Business, Big Academia and Big Government, so with such huge support and funding from them as well, only a fool would expect her to lose.

And according to media reports, Trump had privately told his friends that when he had woken up on Election Day, it finally dawned on him that he would probably lose. He had a number of reasons to feel downtrodden since the media had hounded his candidacy, calling him

racist, a Hitler reincarnation, mafia don (mobster), publishing detailed accounts of him going into bankruptcy six times, and labeling him sexual predator. A few years earlier, he had on off-the-record conversation with former *Access Hollywood* TV show host, Billy Bush, cousin of former Florida governor Jeb Bush. There had been secretly taped video footage of Trump saying that when he met beautiful women who fawned over him for his reality TV show stardom, he wanted to “grab them by the p***y.”

Although Trump may have won the Republican Party’s nomination for the White House in 2016, each day on the campaign trail seemed to be yet one more public relations disaster and scandal eruption after another, and so the likelihood of Trump winning seemed more like a fantasy tale than reality even for his staunchest of backers. So after Hillary cast her ballot and Clinton’s supporters did the same in their respective polling booths, they all felt like it was a moment for them to relax after fulfilling their civic duties, while Hillary supporters could wait in anxious anticipation to attend election parties later that evening. However, some media coverage on that day revealed that Republican Party-leaning precincts were reporting record turnouts while Democratic-leaning precincts were having lower-than-expected voting tallies.

Election results started to pour in as TV news networks broadcast live coverage. *The New York Times*’ pollster Nate Silver, who was running the website *FiveThirtyEight* that posted his statistical analysis on polling, had predicted Hillary would prevail over Trump with an “85% likelihood,” but that was before voting precincts began delivering in their real tallies. A Hillary victory seemed all but guaranteed, so New York City, a Democratic Party stronghold, was expected to play host to a massive extravaganza that evening. A huge TV screen at Times Square was showing election results to thousands upon thousands of Hillary fans who had gathered outside in the chilly night air.

Meanwhile, Hillary Clinton and her running mate US Senator Tim Kaine (Virginia) were expected to host an election party at the Jacob Javits Center in Manhattan, which would be open to the public. Hillary and her close circle of family friends and aides would watch election returns with her at a luxury suite in New York’s Peninsula

Hotel before she was expected to greet supporters at the Jacob Javits Center in anticipation of her delivering a victory speech. In the early part of the evening, the atmosphere was electrifying as Hillary fans started to drink and did not seem worried that Trump was beginning to show better-than-expected results in states that reported their returns early on.

In their minds, many of the early reporting states were known as red states (Republican-leaning), so there was no need to feel alarmed. Yet, Nate Silver's real-time meter, which highlighted his expectations of who would win, started to move. And as the hours ticked away slowly, *The New York Times*' election meter was shifting downward from an 85% chance of Hillary winning to 75%, to 70%, and lower for the rest of the evening. That was the moment when Hillary supporters were beginning to get nervous, especially those in attendance at the Jacob Javits Center. The loud and boisterous atmosphere had turned quiet and the pop singers, including J-Lo and Katy Perry, who were performing on stage, could not liven up the crowds.

Trump and his Republican supporters during the campaign often mocked *The New York Times* as a so-called mouthpiece of the Hillary Clinton campaign. When Nate Silver's flashy election meter started to give Trump a greater likelihood of winning, they loved the irony of it all. If by chance Hillary lost, her supporters' hopes would get crushed as they watched *The New York Times*' election results on their smartphones while in attendance at the Jacob Javits Center. Media photographers would later capture the moments of angst and despair on their faces. Nate Silver, a polling guru, had long been considered a favorite of Democrats since he had been so accurate in predicting results from prior elections, including that of US President Barack Obama's bid for the White House in 2008 and his re-election win in 2012, as well as many other victories by Democratic Party candidates.

Nonetheless, Nate Silver kept changing his election meter and it was looking bleak for Hillary, because the elections data was showing that Trump was starting to take the lead in states that were earlier considered a likely win for Hillary in the electoral contest, such as Pennsylvania, Michigan and Wisconsin. In many other toss-up states — Florida, New Hampshire, Virginia, Ohio, Missouri and Colorado — Trump was

either leading or just slightly behind. Eventually, the nervous energy of Clinton's supporters started to fade into despair as they witnessed Trump winning more states on the electoral map. Trump would later go on to win with 306 electoral votes compared to Hillary's 232.

At the Jacob Javits Center, many people started to leave at around 11 pm, when it had become apparent that Hillary's chances of winning were no longer a reasonable expectation. Yet, Trump's win was not considered official until Associated Press called the election for him at around 2:40 am the next day and Hillary called to congratulate him. Many Hillary supporters had remained at the Jacob Javits Center waiting for the Democrat nominee to deliver her concession speech and to thank them for their fervent support, which had been the commonly accepted practice on election nights in the US. But Hillary never appeared on stage that evening. Instead, the crowd had faced a surreal moment when her campaign manager John Podesta stood behind a podium to announce Hillary did not concede the election, and he then ordered them to return home and get some sleep. By this time, many people all over the world knew Hillary had lost, so they could not understand why she had vanished from the public and refused to admit defeat.

Hillary's failure to concede defeat in front of loyal supporters on election night had demonstrated a serious error of judgment on her part. A national leader, whether in victory or defeat, was expected to show grace under pressure, but by reflecting on her behavior that evening, one could get a better understanding about how she had lost. She had struggled with numerous health ailments during election season which had limited her time in public, and so she had delivered only about 1–2 speeches a day. She had even taken a 2-week vacation shortly after an American holiday, Labor Day. She had hidden from the public spotlight at the very height of the campaign season. She spent more time with rich and famous donors who hosted closed-door parties rather than make efforts to meet and greet ordinary American voters, especially in the Rust Belt states of the midwest.

Even with a fawning media, she still had to deal with numerous stories of allegations of corruption with regard to donors to the Clinton

Foundation, careless handling of an email server in a bathroom while she served as the nation's Secretary of State, and her speeches seemed more robotic than authentic. Meanwhile, Donald J. Trump was giving about three rallies per day and often-times with more than 10,000 people in attendance as they cheered him on with vigorous enthusiasm.

Yet what seemed to be the real reason for Trump's upset victory was that he had seized control of the campaign narrative despite vigorous media attacks. He kept pointing out that Hillary would serve the interests of Big Business and foreign governments, which had led to the demise of the American middle class and working class, many of whom were struggling for survival. Hillary was the face of globalism that had caused immeasurable damage to America's once vibrant manufacturing base and small-town Americans. If Hillary were to get elected and enter the White House, it would be business as usual for Wall Street, large foreign-based multinationals and China as well, according to Trump. He had also captured wider popularity with his slogans, such as: "Make America great again," "Drain the swamp," and "Lock her (Hillary) up." Trump had succeeded in capturing the hearts and minds of ordinary American voters as they had swept him to a stunning upset victory on Election Day.

Embracing the "America First" Platform

When reviewing the life story of Trump before he announced his candidacy to run for the GOP nomination for President in 2016, few voters could imagine him as their ideal anti-establishment, anti-globalist and anti-Big Business candidate that would go on to prevail and win the White House. He was not just rich, but mega-rich, and loved to flaunt his immense wealth as a real estate mogul in New York City. His was not a "rags to riches" story since his father, Fred Trump, was a successful property developer as well.

Donald Trump grew up in Queens and attended the city's elite schools. He eventually received his MBA at Wharton Business School, University of Pennsylvania. Trump had seemed foreordained to enjoy

remarkable success as a businessman and for many years of his professional career, he had called himself a Democrat and was a generous donor to Democrat politicians in New York. Trump's life of fame and fortune, his building of huge luxury condos known as Trump Towers in major cities all over the world, and his popular reality TV show, *The Apprentice* on NBC starring him as the host, had catapulted him to pop culture stardom.

One would not be incorrect in saying that "Trump had it all." So it seemed odd that he would run for President and risk his entire business career and public reputation, since politics can be a blood sport as rival candidates fight to the finish by engaging in dirty, nasty and brutal mudslinging personal attacks. But in the current age of politics that encourages trolling, insults and a street fighter mentality, Trump answered the call at the right moment. Political campaigns were no longer a gentlemanly sport. A candidate hoping to succeed had to have the innate qualities of an entertainer, fighter, leader, doer and thinker, all in one, to prove that he or she deserved to be elected to office, especially to the White House.

The President had to take charge of pushing bills and budgets through the legislature — US Congress and Senate — while taking center stage in the world to resolve international crises, negotiate treaties and impose higher tariffs. There would be moments when the nation's commander-in-chief would have to make life or death decisions over matters of war and peace. Leading influential members of the Washington Beltway, Wall Street and a high number of sovereign government leaders had all appeared to have stood in stiff opposition to Trump and what he stood for when he hit the campaign trail. The globalist establishment crowd had underestimated him when they had voiced their condescension of his political campaign. But this could have been a significant reason why he won such overwhelming support from many ordinary American voters who were residing in the mid-west, the south, southwest and Rocky Mountains regions.

Trump was facing overwhelming attacks from Big Media, Big Business, as well as globalist elites. We can revert to a quote from the Chinese ancient strategist and sage Sun Tzu who was quoted as saying

that “the enemy of my enemy is my friend.” Accordingly, while many Americans may not have appreciated Trump’s constant trolling on Twitter, undiplomatic statements, clownish jokes on stage, vicious personal attacks, and his personal life, since he had earned notoriety as a womanizer who frequently dated or had mistresses who were porn stars, actresses, models, strippers and many other women with questionable moral backgrounds, Trump was fighting globalism and that endeared him to them. Most Americans were not ideologues and did not identify as solely Republican or Democrat as they were true-to-life middle-ground (moderate) voters. Many of them could be categorized as middle class and working-class voters living in America’s heartland. As such, they would tend to hold more patriotic sentiments. They had witnessed first-hand the devastating impact of globalism and how China’s huge trade surpluses had resulted in more than 60,000 factories shutting down across the nation. Many working-class Americans had lost their jobs when factories were imploding and could not find employment in other sectors of the economy since US net job losses had totaled 2.4 million from 2000 to 2016.

Despite succumbing to impoverished circumstances, many unemployed Americans had remained reluctant to request government handouts such as monthly welfare stipends, food stamps and government-assisted housing from US Housing and Urban Development (HUD). They had taken pride in themselves and their families and considered it disgraceful to become charity cases as they stood willing to work in any job, even if it was “dirty, dangerous and downgrading,” so long as they could avoid becoming wards of the state. Such people are the “working poor,” who seek to maintain their dignity by working in odd jobs. They acted with honor and noble convictions, but when so many factories had shut down in small-town America, there were not enough replacement jobs for them.

On the campaign trail, Trump had highlighted what he later defined as “America First” policies in order to “Make America great again.” He was first quoted on the record using the phrase during a *New York Times* interview on March 16, 2016, “I’m not an isolationist, but I am America First,” said Trump. “So I like the expression. I’m America

First.”¹ His ideals were based on promises to build a huge border wall, and make Mexico pay for it, in order to stem the tide of illegal immigrants that had been sweeping into the country. He had also touted promises to raise tariffs on imports and to tear apart or renegotiate free trade agreements (FTAs), including NAFTA (North American Free Trade Agreement), that had resulted in huge trade deficits with other nations. Meanwhile, Trump had opposed other globalist mechanisms that weakened US sovereignty such as the United Nations Climate Change Pact. Trump also wanted to stop “endless wars” that were waging across the Middle East.

Trump’s “America First” pledge held strong appeal for America’s working poor for a number of reasons. The flood of illegal immigration had lowered wages on jobs known as the “3 Ds” (dirty, dangerous and demeaning). That meant that even if US citizens who were part of the working poor were willing to work in such jobs, they would have to accept a lower salary and if they got hurt, had an illness or missed a day’s work for personal reasons, the work contractor could replace them immediately and they would have to return to the unemployment lines all over again.

When Trump spoke about the wall, “a big, beautiful wall,” the imagery alone inspired millions of the working poor to pledge their die-hard support for the candidate who promised to slow down the illegal immigration, which would inevitably lead to higher wages for the “3 Ds” jobs. Trump as the “peace” candidate was alluring as well. Many middle class and working-class American voters had family members that were serving in the US Armed Forces, and they could not comprehend why former US Presidents — George W. Bush and Barack Obama — had continued to send American forces to keep fighting in the Middle East, since Washington could not capture any real benefits from such aggressive actions.

American soldiers were dying in vain while other Arab countries were slaughtering each other. Meanwhile the widespread violence had

¹The New York Times, “Highlights from our Interview with Donald J. Trump on foreign policy”, <https://www.nytimes.com/2016/03/27/us/politics/donald-trump-interview-highlights.html> (March 26, 2016).

sparked the rise of Islamist-extremist terror groups, including Islamic State (ISIS), and hence the endless wars had transformed into an even larger global terror threat. Trump delivered a ray of hope for many American military families who wanted Washington to stay out of Arab conflicts as well as other endless wars unless US sovereignty and safety were at stake. It just didn't make any sense for Washington to fight wars when those nation's armies had not threatened to attack America on its own turf.

One could argue that "America First" principles were simple commonsense values when addressing domestic politics and world affairs. Even China's Foreign Ministry had been well-known for saying that its government adhered to the principle of non-interference, which meant Beijing did not interfere in the internal affairs of other nations, as mandated under the UN Charter. That was the notion of "live and let live" for all sovereign nations to respect others' laws and cultures. This should not be defined as isolationist, but good manners in diplomacy. This was at odds with the rise of globalism, a belief system that proposed that all countries and governments should be closely interconnected and aligned, and the sovereignty of nation-states should be weakened for the sake of international harmony and common prosperity. An example of this was the EU holding sweeping powers that would allow Brussels to overrule the national laws and legislation of its member states.

Nevertheless, Beijing and Washington both stood reluctant to oppose any measures that would restrict their respective national sovereignty, so it should come as no surprise that they were the world's two largest economies and most powerful nations while they held a peaceful non-alliance partnership. One should also take note that Trump's "America First" slogan did not originate from him or his campaign team. It originated in 1992 when conservative political commentator, Patrick J. Buchanan, had launched a Don Quixote-esque campaign to run for the GOP nomination for President against then US President George H.W. Bush, who was running for re-election.

Buchanan lost that election and his ensuing Presidential election campaigns in 1996 and 2000 when he ran on the Reform Party ticket,

but he had delivered impassioned speeches calling for "America First": build the wall, Washington should stop being the "world's policeman" and to increase tariffs on China and other nations. Where Buchanan had failed, Trump had succeeded when championing the cause of "America First" on the road to the White House. And after his stunning victory, as President-elect he would start selecting his Cabinet members and staff while preparing for his inaugural address, scheduled for Friday, January 20, 2017.

Forgotten Men and Women

The nation's capital was cold and dreary on the day when Trump was sworn in as the nation's 45th President, and the mood was gloomy for Democrats. Meanwhile, 69 members of Congress, all Democrats, decided to boycott the inauguration and had refused to witness Trump's inaugural address which he would deliver on the steps of Capitol Hill in front of hundreds of thousands of onlookers, mainly Americans from the nation's heartland. Trump's supporters, who had trekked in from their homes across the nation to take part in the historic occasion, did not appear to be ultra-rich or living in abject poverty.

When looking at the crowds, you would see images of regular people dressed not in tuxedos or fancy dresses, but wearing ordinary attire such as hoodies, blue jeans and plaid shirts. If a foreigner who had never visited the US wished to know what regular Americans looked like in 2017, their best bet would be to view images of the crowds who had arrived to watch Trump deliver his inaugural address that day. One would be looking at the faces of Middle America, who with their enduring support for the President would stand by his side in good times and bad. As they arrived to listen to Trump's speech, they would not be disappointed as the President spoke on key themes that mattered to their hearts. Let us take a closer look at a few of his more notable passages:

For too long, a small group in our nation's Capital has reaped the rewards of government while the people have borne the cost.

Washington flourished — but the people did not share in its wealth.

Politicians prospered — but the jobs left, and the factories closed.

The establishment protected itself, but not the citizens of our country.

Their victories have not been your victories; their triumphs have not been your triumphs; and while they celebrated in our nation's Capital, there was little to celebrate for struggling families all across our land.

That all changes — starting right here, and right now, because this moment is your moment: it belongs to you.²

A significant part of Trump's popularity on the campaign trail correlated with the notion that he promised to “drain the swamp,” meaning root out corruption in the Washington Beltway. He claimed that was where lobbyists and special interests had become rich by putting the American people up for sale. He highlighted the US government signing FTAs that allowed other nations to trade more freely with Washington that had led to huge trade surpluses, which seemed to benefit everyone but Americans employed in the manufacturing sector. Washington lobbyists could score massive payoffs in fees from Big Business clients, companies which had closed down factories in the US so they could reopen and operate factories in China and elsewhere at significantly lower costs and wages. The Washington Beltway establishment had enriched and protected itself without concern over the fate of Middle America and the working poor. As the newly-anointed US President, Trump vowed that he would transform the nation not for the benefit of American and globalist elites, but would fight on behalf of ordinary Americans.

The forgotten men and women of our country will be forgotten no longer. Everyone is listening to you now.³

The media had largely maligned Trump when he mentioned the “forgotten men and women,” claiming it was a symbol of white

²The White House, “The Inaugural Address”, <https://www.whitehouse.gov/briefings-statements/the-inaugural-address/> (January 20, 2017).

³*Ibid.*

supremacy and citing how the phrase was allegedly popularized by racist political demagogues, but they were mistaken. During the Great Depression in the 1930s, then US President Franklin Delano Roosevelt had spoken frequently about the “forgotten man” in his weekly radio show fireside chats, in which he informed listeners that his “New Deal” policies of government support for the poor would benefit the “forgotten man.” The forgotten man had also been referred to in former US President Richard Nixon’s “silent majority”, American voters who lived routine lives as middle- and working-class citizens.

We’ve made other countries rich while the wealth, strength, and confidence of our country has disappeared over the horizon.

One by one, the factories shuttered and left our shores, with not even a thought about the millions upon millions of American workers left behind.

The wealth of our middle class has been ripped from their homes and then redistributed across the entire world.

But that is the past. And now we are looking only to the future.⁴

This passage best encapsulates the reasons for the rising popularity of Trumpism in regard to support for raising tariffs on other nations and promoting “America First” economic policies. Trump felt compelled to do so in order to stop the decline of the US manufacturing base which he viewed as the true wealth of the nation. Buchanan, the originator of “America First” idealism, had written commentaries on the concept that a nation must be self-sufficient. He explained that a true superpower has to manufacture much of what its citizens need or could risk succumbing to its downfall as rival nations could halt trade of essential goods with a siege in order to weaken the superpower before an imminent invasion. Buchanan had quoted US President Abraham Lincoln who had also championed higher tariffs when he gave a speech in support of Henry Clay in 1844, saying, “Give us protective tariffs and we will have the greatest nation on Earth.” Accordingly, Trump was not setting any new

⁴ *Ibid.*

precedents on economic policy but just following up on the practices of great American Presidents who had served long before him.

From this moment on, it's going to be America First. Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families.⁵

The statement was self-explanatory, but a fitting reminder that US sovereignty would be challenged no longer while Trump served in the White House, or at least he had hoped that would be the case.

Additionally, we capture a glimpse and a warning that President Trump would not bow down and placate China when later the two nations were fully engaged over trade concerns. Trump's emphatic statement, "Buy American and hire American," demonstrated that the days of globalism overruling domestic economic policies would be no more. Trump intended to challenge any country that threatened the economic security of his nation so that "America will start winning again, winning like never before." Nevertheless, President Trump's critics and the Big Media that frequently railed against him had attacked his inaugural address, with the magazine *US News and World Reports* labeling it as his "carnage speech."⁶ His critics, mainly composed of the nation's elite, had failed to understand the true appeal of Trump when it came to ordinary Americans, who were indeed the forgotten men and women, and they included Americans of all races, sexual orientations and creeds. The concept of the "forgotten man" was not race-based or homophobic.

While many reporters and leading academics were speculating over the real identity of the "forgotten man" referred to in Trump's inaugural address, they had overlooked the obvious. A Utah-based artist, Jon McNaughton, had finished a painting called *The Forgotten Man*⁷ in 2011,

⁵ *Ibid.*

⁶ US News and World Reports, "The 'American Carnage' Speech", <https://www.usnews.com/opinion/thomas-jefferson-street/articles/2017-01-23/donald-trumps-inaugural-address-will-be-known-as-american-carnage-speech> (January 23, 2017).

⁷ McNaughton Fine Art Company, "The Forgotten Man", <http://jonmcnaughton.com/the-forgotten-man/>.

which had shown a downtrodden man sitting on a park bench with his head stooped, looking down in despair and confusion, while standing behind him are the caricatures of all former American Presidents from George Washington to Barack Obama.

This painting gained global acclaim and was hailed as a masterpiece by Republican politicians and conservative media commentators and was later sold to Fox News TV show host, Sean Hannity, for an undisclosed amount, according to McNaughton's website. President Trump was familiar with the artwork of Jon McNaughton and he was dubbed Trump's unofficial artist on the campaign trail as he produced paintings that showed Trump as a champion of patriotism and the American flag. Trump has also spoken about his enduring friendship with Hannity. McNaughton not only promoted the painting *The Forgotten Man* on his website, but also defined the meaning of his artwork.

Who is the Forgotten Man?

He represents every man, woman and child of every color and creed who is an American. Like you and me, he hopes for a better life, to find the American dream of happiness and prosperity. But now, because of unconstitutional acts imposed upon the American people by our government, we stand on the precipice of disaster. What will his opportunities be in the future?

Will he ever have a chance to realize the American dream? Please don't sell out our future for the crushing debt imposed upon us by entitlement programs and heavy taxes. Why do you not uphold the Constitution? Do you think that redistribution of wealth, uncontrolled spending and free hand-outs for everyone at the cost of burdensome taxation and destruction of our financial system will lead us to some kind of socialistic Utopia? How can our national debt lead to anything other than collapse? Abiding by the Constitution is the only way to preserve the hope for life, liberty and the pursuit of happiness. Each President takes an oath to protect and defend the Constitution. Mr. President, what have you done?⁸

Here was a very simple explanation about the "forgotten man," but for a number of months after President Trump's inauguration, many

⁸ *Ibid.*

reporters were running in circles trying to figure out the true meaning of the phrase. They had veered off in strange directions, claiming it was “white power” symbolism, when it was just about ordinary Americans who wished to make their lives better.

Yet the actions of the media when reporting on President Trump had set dangerous precedents as many reporters had cast aside fairness to promote the Democratic Party and globalist elite who had sought to destroy Trump in the White House. From day one, when Trump took the oath as President, the media had published frequent smears and weird allegations, such as claims that he hired Russian prostitutes to urinate on a hotel room bed before Obama was scheduled to arrive for a state visit to Moscow, and they had seemed gleeful whenever they could expose a scandal. It did not matter to them if the scandal was true or false, they had just hoped it would harm Trump’s reputation, which could lead to his political demise. Later on, prosecutor Robert Mueller led a special investigation into claims over so-called “Russian collusion” on the part of the Trump campaign team, but two years later in March 2019, the case was closed and President Trump was exonerated from such allegations.

When the media acted with such obvious media malpractice, they were creating a huge disservice not only to the American public, but also to diplomatic communities and even to the Chinese President and his aides who had sought to improve diplomatic ties with Washington. Beijing was receiving a constant inflow of contradictory information from media reports, book authors and Washington-based think tanks, who all seemed bent on showing hate for Trump. Their actions could have posed a grave risk of sparking an international crisis while setting up a poisonous atmosphere for President Trump when he spoke with other world leaders. Trump hoped to create an enduring friendship with Chinese President Xi, but the never-ending media attacks led to much confusion.

China’s diplomatic community struggled to understand Trump since they were relying on the anti-Trump media and think tanks to gather their information and analysis about the White House. When Chinese Ambassador Cui Tiankai was interviewed by National Public Radio (NPR) in Washington on October 3, 2018, he said, “I’m

confused”⁹ when asked what he thought about President Trump. In all likelihood, many other diplomats from around the world had probably felt the same way, which explained the ceaseless struggles that Trump was facing on a daily basis. President Trump was fighting a two-front war in office, one that involved the media, and the other to defend the US manufacturing sector.

US Manufacturing: Dark Days

Many US-based reporters had also failed to grasp the plight of the forgotten men and women in Middle America. Even before the political rise of Trump and prior to Obama’s ascendancy to the White House, the American media had often lampooned the working poor, denigrating them with ugly nicknames, such as: rednecks, hillbillies, losers, racists, stupid, white trash, drunkards, skanks and plenty of other derogatory monikers.

Surprisingly enough, many reporters sympathetic to Democratic Party policies that called for a narrowing of the income inequality gap and claiming to champion the poor had appeared contradictory when criticizing America’s working poor. Why did the media, as well as Hollywood’s superstar entertainers, writers and producers largely look down upon Middle America? The contradictions were glaring, but an explanation might be found by taking a closer look at college and university campuses nationwide. Nearly all of them seemed to have been overtaken by liberal-leaning professors and administrators who sought to indoctrinate students with politically correct (PC) values. Hence, Ivy League schools, California’s state universities and many other schools were espousing leftist agendas. If students expressed different viewpoints, they risked receiving failing grades or being labeled as so-called “haters” and targeted by “social justice warrior” students for “virtue signaling” campaigns.

⁹National Public Radio, “China wants to end trade war but ‘U.S. position keeps changing,’ Ambassador says”, <https://www.npr.org/2018/10/03/654084691/china-wants-to-end-trade-war-but-u-s-position-keeps-changing-ambassador-says> (October 3, 2018).

Accordingly, America's younger generation of journalism students had to claim support for PC values or risk alienation. Worse yet, they could have gotten blocked from applying for jobs as a reporter in the mainstream media. It was common knowledge that many TV news directors, along with new media and print editors, had insisted that those working for them had to agree with their political sentiments. Many reporters were not allowed to express independent thoughts, speak truth to power or take part in hard-hitting investigative reporting unless it reaffirmed the viewpoints of their bosses. Either they supported a certain political ideology or they faced the possibility of dismissal from their jobs. Such a precarious atmosphere in the media world explained why many reporters had gone overboard to espouse anti-Trump stories to the public.

They were following orders from above. If one believes that such tales of press room intolerance are not true, look no further than the tale of former Emmy award-winning CBS News reporter Sharyl Atkinson who was one of the news broadcaster's most successful reporters. When she started to report on more negative stories about the then President Barack Obama, she was pushed out of her job. She has penned the book *Stonewalled: My Fight for Truth Against the Forces of Obstruction, Intimidation, and Harassment in Obama's Washington*. You often hear many reporters say they "report the truth and nothing but the truth" or "report in an unbiased manner," but just review the overall news coverage on President Trump from 2017 and 2018 and it appears to be about 90% negative.

You could also uncover numerous incidents of fake news reporting as well. The London-based newspaper, *The Telegraph*, posted an article on September 26, 2018, revealing that the BBC News had falsely reported in a tweet that President Trump was threatening war against Iran.¹⁰ If the Iranian government had believed that was genuine, that would have been a nightmare scenario come true. It is necessary to

¹⁰The Daily Telegraph, "BBC News accused of fake news after it misheard Donald Trump declare war", <https://www.telegraph.co.uk/news/2018/09/26/bad-bbc-accused-fake-news-misheard-donald-trump-declare-war/> (September 26, 2018).

point such matters out because, as US–China trade negotiations started to heat up, Chinese officials, according to prevailing media reports, were acting “confused” as to how to respond to Trump’s trade actions.

Many Chinese trade officials who had been hired to conduct deeper research on the US in order to prepare for strategy sessions had failed to understand President Trump. They also struggled to understand the overall mood of the country and the astounding negative impact that was inflicted upon the US manufacturing industry due to China’s massive trade surpluses with the country.

For many Chinese officials, they were reading articles from America’s mainstream media that argued that China’s trade surpluses were largely beneficial to the US economy since they had drastically lowered consumer prices for the country. They were hearing that many Americans were getting a higher education, so it was interpreted by them that Americans had lost interest in working with their hands. They drew such conclusions since China’s economy had been soaring higher for the past four decades, and nearly all Chinese families placed a primary emphasis on their children’s education, hoping that they could work in white-collar jobs as adults.

While the American media was denigrating blue-collar workers in the US, the Chinese had incorrectly thought that most Americans would be ashamed to work in a factory. Hence a tragedy ensued as Chinese negotiators entered trade talks without a clear understanding of American politics, culture and the national economy. Many Chinese held high hopes and assumed that they could easily defeat Trump because the American media was telling them the White House was in chaos. They had assumed the American public was against him and that most Americans would support China if trade wars were indeed to erupt. But by nearly all accounts, China’s trade officials had gotten it very wrong. To understand how that was the case, one has to ponder on what really happened from 2000 to 2016 when the US manufacturing sector was being hard-hit.

According to statistics compiled by the Organization for Economic Cooperation and Development (OECD) in its 2017 *Yearbook*, US full-time manufacturing jobs figures had stayed steady at over

17 million from 1965 to 2000. The year 1998 stood as the peak for American factory jobs at around 17.6 million. But as noted earlier, China's entry into the WTO had inflicted a devastating impact on American manufacturers. Hence, starting from 2002, the trade imbalances between the two countries had surged to astronomical levels. While US factories were shutting down, many US corporations had reopened factories in China and were then re-exporting products back to American consumers.

The US manufacturing sector then entered what has been known as the "lost decade," 2000–2010, when the vicious cycle of American job losses and factory shutdowns had begun a decline of the US economy in Middle America. Suddenly, once-vibrant factory towns were transformed into ghost towns. This led to higher crime rates, drug epidemics, family breakdowns and the collapse of social cohesion in numerous small towns all across the nation. The hardest-hit had been both white and black men in the blue-collar workforce. Their income levels had dropped significantly. Meanwhile, men with college diplomas had actually seen their incomes drop by about 20%, adjusted for inflation, from 1993 to 2013.

Was it true that getting a college diploma promised higher incomes for Americans? Well, not anymore. The American media and culture had tried to make blue-collar jobs seem downgrading, which meant families had discouraged their children from applying for vocational education (technical jobs skills training) after they graduated from high school. Nearly all adults with high school diplomas were expected to go on to study at a college or university, where they were expected to obtain at least a Bachelor's degree in order to receive familial acceptance. However, many young Americans were not interested in education and had only enrolled in higher education institutes to please their parents.

Consequently, many millions of America's youth were going to college and amassing huge debts in student loans even though they had demonstrated very little interest in studying professional courses that would prepare them for the real world after graduation. Many students were majoring in liberal arts majors such as literature, philosophy and

political science which had become widely popular since they were considered easy courses to take. Yet in regard to their relevance in getting hired into high-paying jobs in the white-collar sector, liberal arts students were the least prepared for the changing dynamics in the US economy.

Additionally, diplomas had lost their luster as a document that would provide better job opportunities. So many American adults had earned a college diploma that companies hiring new workers, requiring degrees, had larger pools of applicants to choose from. Competition for office jobs had gotten much fiercer, while many college graduates had failed to get properly certified training for technical jobs. As more factories were shutting down in the US, that had led to even greater despair for the working poor. Many factories required laborers on the floor to perform specific actions either for the manufacturing or assembly of products. More often than not, their repetitive actions had made laborers less curious about learning different job skills since following a routine was most important to them. They could succeed with the work they had done in the factory that hired them, but when they had completed their tasks, they would usually return home to relax.

Consequently, when factories were getting shut down, many workers were mentally unprepared to enroll in vocational education so they could find a new job in a different sector of the economy. The job losses were shocking. In 1998, 17.6 million Americans were employed in the domestic manufacturing sector, but by 2016, when President Trump was campaigning for the White House, only 12.3 million Americans still had factory jobs, while more than 60,000 factories had been shut down nationwide between 1998 and 2016. A large part of those losses came about as a result of China's economic rise and the huge trade surpluses they had accumulated with America.

Additionally, Chinese manufacturers had embarked on major advances and upgrades on factory floors, while introducing robotics and smart technologies that had replaced human laborers for industrial tasks. China was becoming a much more innovative economy that had patented new inventions and developed brand new devices that global

consumers cherished. While American manufacturers were on the decline, China's economy surged ahead.

Chinese factories and technologies were out-pacing US manufacturing and it was essential for Washington to adapt to the changing times of our world. Blaming China for its problems was not going to make Americans a success; they had to find ways to be innovative as well as to improve production and logistics efficiency and lower costs, or lose out to China and many other nations.

Research economist Eric D. Gould of the Institute of Labor Economics has written a report about the decline of the US manufacturing sector that was featured in an article posted by *Breitbart News*.¹¹

Gould's study revealed that US-sponsored FTAs with many other nations had led to an alarming rise in job losses, with America's Rust Belt getting hardest hit. In 2015, US factory workers had tallied at just over 12 million, but that was less than half those employed in the domestic manufacturing sector in 1960. In 1970, manufacturing jobs ranked as offering the fifth-highest wages for white men in the US, while it was the third-highest for black men.

Gould's report published by the Economic Policy Institute cited figures claiming that Americans had suffered over 3.14 million job losses over all sectors of the US economy, which had been a direct result of US trade deficits with China. It was believed that of the 2.6 million job losses in US manufacturing, over three-quarters of that had come from China's economic rise, which was occurring at around the same time period. While China's manufacturers were enjoying more prosperous times, American factory workers had to endure mounting challenges. Meanwhile, many cities such as Detroit (Michigan), Cleveland (Ohio), Milwaukee (Wisconsin), Gary (Indiana) and Rockford (Illinois) had been witnessing declining populations since many factories in local communities were getting shut down and abandoned,

¹¹Breitbart News, "Study: U.S. manufacturing collapse catalyst for economic decline for white working class, black men", <https://www.breitbart.com/politics/2018/09/02/study-u-s-manufacturing-collapse-catalyst-economic-decline-white-working-class-black-americans/> (September 2, 2018).

causing an increase of what had been known as ghetto areas, run-down neighborhoods where criminal gangs had taken control of local streets and communities.

The decline of the US manufacturing sector was a disappointment to many factory workers and their families in the country, but not all Americans suffered tough times during the lost decade or even the years after that from 2011 to 2016. From 2000 onwards, America's Silicon Valley had enjoyed boom times with the emergence of Apple Corp., Facebook, Google, Yahoo, and many other high-tech firms based in the surrounding San Francisco metropolitan area and suburbs. The city of Seattle also continued to rise in prominence as the home base to Microsoft, Amazon and the Starbucks coffee chain. California was also home to Hollywood, and in New York, Wall Street financiers, hedge fund managers, lawyers, investment bankers and angel investors were scoring huge deals with multinationals as they poured more and more FDI into China. The biggest winners in America seemed to be those connected to the capital city, Washington, D.C., which included lawmakers, government employees, lobbyists and lawyers, while many of them stood as staunch supporters of globalism.

While Obama had served in the White House, many privileged elites working in Washington had sought to weaken immigration laws to invite a bigger influx of immigrants to enlarge the workforce, which would lower wages for the working poor while increasing consumption and services that would benefit American multinationals and China's exporters most of all. When Trump stepped into the White House after delivering his inaugural address, he was laying the groundwork for the transformation of the nation's economy to work on behalf of the forgotten men and women who had lost their jobs along with their long-cherished dignity.

He would fight to restore jobs, reopen factories and provide hope for the main streets in cities and towns all across the nation. Meanwhile, the Chinese would have to prepare for the inevitable. They would soon be confronted with higher tariffs on their exports and a US President who would not shy away from confrontation with Beijing. China's glory days with huge trade surpluses and large holdings of foreign cur-

rency reserves, as well as its highly productive and efficient manufacturing sector, would face the moment of truth. Chinese President Xi Jinping would have to make some tough choices: should he confront Trump and raise the stakes or come to a quick surrender by bringing about truce terms? The trade battle between Trump and Xi would be one for the ages and whoever would come out the winner would reap the rewards, while the losing side would head towards a long-term decline in global influence and economic prominence.

Meanwhile, it is imperative to take a closer look at China's emergence as an economic superpower, rising from its dire impoverished circumstances over 40 years ago. The country had witnessed a miracle of sorts. The late leader of China, Deng Xiaoping, had paved the path for the nation's prosperity when he introduced the reforms and opening up in December 1978. And from that day on, China and the world would never be the same again.

Chapter 3

American Dream vs. Chinese Dream

Dreams require perseverance if they are to be realized, and fortunately we're a hard-working country and people. We are the luckiest people in history, just by the fact that we are Americans.

US President Donald J. Trump.

In the future, the Chinese nation will “forge ahead like a gigantic ship breaking through strong winds and heavy waves”.

Chinese President Xi Jinping’s “The Road to Rejuvenation” speech, November 29, 2012
(Xi Jinping: The Governance of China).

You see things; and say, “Why?” But I dream things that never were; and say, “Why not?”

George Bernard Shaw.

American Dream

Trade negotiations between Washington and Beijing are much more significant than simply dealing with disagreements over the imposition of tariffs. That is on account of both sides needing to address the transfer of technology (tech-transfer) concerns, as well as tackling topics on the protection of intellectual property rights (IPR), along with confronting challenges over trade imbalances between the two most powerful and largest economies in the world. The fight to win the upper hand in bilateral trade talks will determine which nation either overtakes or continues to assume the world’s leading position as an

economic giant and geopolitical superpower for the latter half of the 21st century. US President Trump and his Chinese counterpart Xi Jinping are well aware of the full consequences, which explains why both leaders have taken hard-line stances at the beginning to fight for the interests of their respective nations.

By taking a closer look at American values, which are embodied by the principles of the US Constitution, Declaration of Independence, the motto engraved upon the Statue of Liberty, and the American dream, one can better grasp the motives of President Trump. Plus, one can gain a deeper perspective of his efforts to promote “America First” measures that coincide with the nation’s enduring spirit of individuality, free markets, democracy, freedom, and power to control one’s fate.

Americans since the times of the nation’s founding fathers have long sustained a public spirit of optimism, believing they could achieve greatness if they set their minds to it and engaged in laborious endeavors. The US had risen to become a great superpower surpassing all other nations and they were not ashamed to boast about it. From the early stages, Americans wanted to emerge as the number one nation in the world, so they had willed it and with their tremendous efforts had achieved the ultimate goal while overcoming numerous challenges in the process.

However, China as an up-and-coming rising power had witnessed over four decades of remarkable economic GDP annual growth rates and was suddenly poised to challenge the US as the world’s most dominant country. Nonetheless, Beijing differed from Washington since its government did not favor full-fledged democracy, basic human rights such as freedom of the press, the right to assembly, or the right to protest and to pray without government interference. The Chinese economy had remained largely controlled by SOEs, with its government collaborating with and subsidizing many domestic firms and key industrial sectors, which demonstrated that China would not change its ways in the ensuing years. Accordingly, many Americans had expressed concerns over the dramatic rise of China. Americans had elected Trump in 2016 to halt the increasing threats that China appeared to pose to the US economy, US citizens and American diplomatic influence worldwide.

US citizens, from their perspective, felt justified in seeking to take necessary steps to fight against China's rise on account of their concerns over how that could impact the American dream and their way of life, which they believe serves as the right model of governance even for the world at large. But what exactly is the American dream and why has it captured the hearts and minds of Americans for so many years? Well, it all started with America's birth and the signing of the Declaration of Independence in Philadelphia's Independence Hall on July 4, 1776. The document has the famous lines, which read:

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.¹

Americans believe wholeheartedly in these words and do not look kindly upon anyone who may try to take away what they deem to be their well-deserved inalienable rights.

US citizens have also been enamored with the notion of the American dream, although the concept was not defined until author James Truslow Adams coined the phrase in the book *Epic America* published in 1931 when the American people were coming to grips with the Great Depression. He wrote:

Anyone, regardless of where they were born or what class they were born into, can attain their own version of success in a society where upward mobility is possible for everyone. The American Dream is achieved through sacrifice, risk-taking and hard work, not by chance.... That dream of a land in which life should be better and richer and fuller for everyone with opportunity for each according to ability or achievement.²

One should take note that in Adam's essay, he was addressing the changing of the guard in world history as European powers had

¹National Archives, "US Declaration of Independence", <https://www.archives.gov/founding-docs/declaration-transcript>.

²GoodReads, "The Epic of America Quotes", <https://www.goodreads.com/work/quotes/1180986-the-epic-of-america>.

weakened in the aftermath of World War I and the US had emerged as the next leader on the world stage. The American dream had represented the rise of “Americana” and the decline of European nation states. Here is what Adams wrote about Europe:

It is difficult for the European upper classes to interpret adequately and too many of us have grown weary and mistrustful of it... A dream of social order in which each man and each woman shall be able to attain to the fullest of which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position.³

The American spirit remained encapsulated with the ideals that any person who worked hard could improve their livelihoods and that even someone who was born into impoverished circumstances could achieve material success. They just had to stay diligent and be educated in order to prepare themselves for potential of greatness in their professional careers. Hence, a poor kid born in Selma, Alabama, which the website *RoadSnacks* ranked as the second-poorest town in Alabama as of 2019, would still have the potential to rise above his circumstances to become either a US President or chief executive officer (CEO) of a Fortune 500 company if he played his cards right.

Nevertheless, the US as the best representative of economic optimism in the 20th century seems to have lost its way at the turn of the 21st century, especially after China joined the illustrious ranks of WTO membership in December 2001. US citizens had begun to lose hope in the American dream starting in the 1990s, according to *Atlantic* magazine, which published a survey by the Pew Research Center and the Aspen Institute for the Aspen Ideas Festival.⁴

Penn Schoen Bertrand interviewed 2,000 Americans in 2015 which had shown that a large majority (75%) of US citizens held a pessimistic outlook for the nation’s future, saying the “American Dream is suffering.”

³ *Ibid.*

⁴ The Atlantic, “The American dream is suffering, but Americans are satisfied”, <https://www.theatlantic.com/politics/archive/2015/07/american-dream-suffering/397475/> (July 1, 2015).

The majority of respondents blamed the Washington Beltway and Wall Street establishment for selling out and harming US national interests, while the elites based in the Silicon Valley and working for Big Business had generated higher profit margins for their companies' bottom lines which had come at the expense of lowering the standards of living for the nation's middle class and working poor. Hence, the increasing pessimism among Americans before Trump entered the White House revealed a sharp contrast with the Chinese people's overall bright outlook about their future.

Chinese Dream

According to a Pew Research Center China⁵ report published on October 5, 2016, 82% of Chinese surveyed believed they would be better off financially than their parents. But among American millennials (US citizens born in the years 1986–2000), the majority of them believed they would be worse off financially than their parents. The Chinese had become much more optimistic than Americans. In the meantime, President Xi, who assumed the nation's leadership role starting on March 14, 2013, had pledged deeper support for what he called the “Chinese dream”. In his book, *Xi Jinping: The Governance of China*, he devoted an entire chapter to the Chinese dream. He first publicly acknowledged the concept shortly after his election as General Secretary of the Communist Party on November 15, 2012. A few days later, Xi visited an exhibition, “The Road to Rejuvenation,” where he delivered a speech:

Everyone has an ideal, ambition and dream. We are now all talking about the Chinese Dream. In my opinion, achieving the rejuvenation of the Chinese nation has been the greatest dream of the Chinese people since the advent of modern times. This dream embodies the long-cherished hope of several

⁵Pew Research Center, “Chinese public sees more powerful role in world, names US as top threat”, <http://assets.pewresearch.org/wp-content/uploads/sites/2/2016/10/Pew-Research-Center-China-Report-FINAL-October-5-2016.pdf> (October 5, 2016).

generations of the Chinese people, gives expression to the overall interests of the Chinese nation and the Chinese people, and represents the shared aspirations of all the sons and daughters of the Chinese nation.⁶

Well, there appears to be a significant difference between the American dream and Chinese dream; whereas Americans are imbued with a spirit of individuality and materialism in which they seek personal rewards, the Chinese aspire for greatness for their nation as the top priority. The American spirit emphasizes individual liberties as the driving force for happiness, while the Chinese favor the happiness of the community above the satisfaction of just one individual for the sake of social cohesion. Oftentimes, the Western media and people of the Western world have criticized China for disregarding liberties in the political sphere. For US citizens, the American dream should benefit individuals, but the Chinese want to benefit the nation as a whole, not just individuals.

If a Chinese succeeds, they want China to succeed too, while Americans are willing to accept fame and fortune even if it would harm their homeland. Therefore, many US manufacturers shut down factories in the US and reopened them in China at lower costs to seek greater fortunes. They viewed it not as treachery, but just part and parcel of the American dream agenda. President Xi wished to connect the Chinese dream with the “rejuvenation of the Chinese nation” to imbue stronger patriotism and loyalty in the Chinese, and inspire them to demonstrate a deeper willingness to endure and make more sacrifices for the country.

Xi believed the Chinese should strive to boost their living standards, earn higher incomes, own better homes, and have more material possessions and comforts so that the overall Chinese economy would continue to surge to higher than global average GDP annual growth rates for the common good of the nation. The Chinese in a spirit of unity can achieve greatness, but they must prepare for the challenges that lay ahead. When reviewing the speeches of Xi, his remarks were not framed in a light-hearted manner indicating that the Chinese

⁶Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 38.

should view the Chinese dream as something easy to achieve. Instead, he alerted them to the challenges they would likely confront in pursuit of “the rejuvenation of the Chinese nation”. He delivered another speech on the topic, saying:

A journey of one thousand miles begins with a single step. There is a bright future for our country, but reaching it will not be easy. We cannot accomplish our goal with one single effort, nor can we realize our dream overnight. Every accomplishment in the world is hard-won. The more beautiful the future, the harder we must work for it.⁷

The Chinese civilization can trace its origins back to over 5,000 years ago, while the US nation has existed for less than 250 years. The Chinese take tremendous pride in their remarkable history in regard to its imperial dynasties, ancient Chinese philosophy, arts, literature, inventions, and advancements in science and technology. The Chinese remain rooted in traditional culture, Confucianism and Taoism, which are belief systems that support social harmony.

The Chinese aspire to adapt to the modern-day era and maintain closer relations with other sovereign nations, but for them, the Chinese dream is not a zero-sum game in which if China succeeds, America or the rest of the world will inevitably fail. They view it from the perspective of an ancient Chinese proverb: “a rising tide lifts all boats.” But if China could lose out when challenged by rivals, the Chinese will side with their nation under a sense of urgency. The Chinese dream first and foremost represents Chinese patriotism. President Xi wants to rejuvenate the Chinese nation and there will be moments when that conflicts with President Trump’s “America First” values as well as with the American way of life.

American Way of Life

When many Americans hear about President Xi touting the “rejuvenation of the Chinese nation,” that rings alarm bells for them since

⁷Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 51.

Chinese values are vastly different from American values. Americans take much pride in democracy, but China has a different system in selecting its leadership. The Chinese President is elected by the National People's Congress, while the US President is elected by ordinary citizens' votes nationwide. Additionally, the American media has at times reported inaccurately and failed to provide fair and balanced viewpoints on important news events of the day. Many reporters are highly critical of China's government officials, especially as Americans have never endorsed media censorship and strongly support the first amendment to the US Constitution, which states:

(US) Congress shall make no law respecting an establishment of religion, or prohibiting the exercise thereof, or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.⁸

Many Americans fear that the rise of China could place their long-held liberties at risk. If China did become too strong and powerful, Beijing stood likely to develop a very strong military that could invade their beloved nation. Therefore, many American voters endorse President Trump's tough trade tactics against China on the grounds that a weaker China economically would pose a smaller threat to them and their livelihoods. Nonetheless, the Chinese government has reaffirmed its commitment to peaceful intentions and does not wish to wage an unprovoked military war against the US. Yet in regard to economic trade wars between Beijing and Washington, it is necessary to comprehend the distinguishing characteristics between the American way of life and how ordinary Chinese people live their daily lives.

To understand Americans, it is essential to know the first amendment of the US Constitution and how that directly impacts their lives. Matters of faith and religion have continued to influence the actions of many Americans and their elected leaders. President Trump has been

⁸Constitution Center, "Amendment I Freedom of Religion, Press, Assembly, and Petition", <https://constitutioncenter.org/interactive-constitution/amendments/amendment-I>.

married three times, but he is a professed Presbyterian who attends church services regularly on Sundays, while First Lady Melania Trump, is a devout and baptized Roman Catholic. To non-Americans, particularly secularized Europeans and many atheist Chinese, when they observe President Trump praying in public or talking about God in his speeches, they think he is just putting on an act or being a hypocrite. Yet many Americans hold a strong and sincere faith, and that includes members of the Trump family as well as many US lawmakers, both Republicans and Democrats.

With regard to the US Constitution's protection of the free press, another irony has arisen. President Trump has often called American reporters, who frequently attack him, as "fake news"⁹ provocateurs and described journalists as "the enemy of the American people" at his political rallies that are filled with huge crowds of American voters and his loyal supporters. But for Americans, the free press is sacrosanct. Even for Cable News Network (CNN), Trump supporters believe they deserve the right to exist to spread their anti-Trump messages. For Americans, fake news is still much better than censored or government-sponsored news. Protests against the US government have become common activities in the country, but many Americans have continued to stay apathetic about politics, neither registering as Republicans or Democrats. Many prefer to avoid political discussions in public, especially in contemporary society, since President Trump has become a flashpoint for controversies. It is not unusual to meet American college students who hate Trump and who have willingly participated in "scream at the sky" events where they were expected to "shout obscenities about Trump" at a public square on college campus grounds. Additionally, you could also find another group of heavily tattooed and long-haired demonstrators wearing black leather attire and with a passion for riding Harley Davidson motorcycles calling themselves "Bikers for Trump."

The American way of life is about freedom, which also includes the economy, and that has played a crucial role in the US emergence as a

⁹Fox 26 Houston, "Trump to CNN reporter: 'You are fake news'", <https://www.fox26houston.com/news/228543730-video> (January 11, 2017).

superpower. Many Americans believe that what made their nation great was their fervent support not only for democracy but for free markets since a person could rise above his station in life by starting their own enterprise or getting employed by a private firm. The American dream is about each individual wanting to become richer. Supporters of capitalism believe the best way for people to achieve greater prosperity for themselves is through free market practices. In a free market, the government is not expected to interfere much in the business affairs of its citizens.

US citizens prefer lower tax rates, fewer regulations on companies, and no government subsidies for companies not engaged in government-related operations. Americans do believe it is appropriate for a defense manufacturer to receive a government contract to build bombs for national defense, but they would oppose subsidies for steel producers that use the funding to export their products. An article posted on *American Thinker* explains how the free market system should be expected to work. “People make choices to improve their life conditions” and it is essential to make “free exchanges” of goods and services “with little interference.” Free market exchanges should be organic, not coerced, while markets exist solely for the “process of exchange.”¹⁰

However, the US economy could not succeed in the long term under a framework of total freedom. Business people cannot be trusted at all times, since too much freedom can create an atmosphere of corruption and exploitation which would be an expected consequence of human nature. Let us say a con-artist scams many people and grows wealthy from that but goes unpunished; he would get much worse and could continue to harm others if left unrestrained. Additionally, the free market system has caused the US economy to become very strong but with high-risk boom and bust cycles. Eventually, Americans have grown tired of rapidly fluctuating markets where they could be rich one day and poor the next.

¹⁰American Thinker, “Why Free Markets”, https://www.americanthinker.com/articles/2012/08/why_free_markets.html (August 26, 2012).

During the Great Depression of the 1930s, many Americans lost faith in unfettered capitalism but refused to embrace Communist or Marxist idealism. They elected Franklin D. Roosevelt in 1932 who had pledged a New Deal for the American people which increased welfare benefits for the poor and unemployed while raising government regulations on businesses as well as taxes. Although many Americans supported the free markets, they were unwilling to give capitalism free reign in the economic system, even during the *laissez faire* capitalism era in the US during the post-Civil War era of the late 19th and early 20th centuries. At that time, US Presidents had imposed higher tariffs on imports from foreign nations.

Yet, America had long been known as the Land of Opportunity for immigrants, and their entry into the nation led to a more vibrant economy as they boosted the national manufacturing base. A number of immigrants had become rags to riches stories — arriving in the US very poor, but later earning fame and fortune in the American business community. The aspirations of immigrants coming to the US stood as living testimonies that the American dream was also the immigrants’ dream. Standing tall on Ellis Island in New York City is the great Statue of Liberty, which welcomed immigrants mainly from Europe. Many of them first arrived in America and passed through Customs on Ellis Island. When looking at the Statue of Liberty they could read the inscription of a poem composed by Emma Lazarus:

Give me your tired, your poor,
 Your huddled masses yearning to breathe free,
 The wretched refuse of your teeming shore.
 Send these, the homeless, tempest-tost to me.
 I lift my lamp beside the golden door!¹¹

Although the slogan had served as an inspiration to many immigrants arriving in the US, if the Statue of Liberty were to be built in today’s times, the sonnet of Emma Lazarus would not be permitted to

¹¹ Poetry Foundation, “New Colossus”, <https://www.poetryfoundation.org/poems/46550/the-new-colossus> (2002).

go on display since political correctness and academic elites would have castigated her comments as derogatory towards ethnic minorities, since they were called “wretched refuse.” Nonetheless, Americans have continued to look upon the Statue of Liberty as a symbol of true American principles. Meanwhile, the “America First” agenda has shown fervent support for the free market systems that favored lower tax rates for US citizens and American companies along with reduced regulations on US-based business activities while increasing tariffs on imports.

Before Trump introduced tariffs on Chinese imports, he had passed legislation through Congress to cut taxes on American taxpayers, while signing a series of executive orders that slashed regulations on American businesses. Trump’s measures sent an effective message to American consumers. Many supporters of pro-China trade policies, including Beijing, the American Chamber of Commerce and Chinese exporters, had argued that higher tariffs on imports would lead to higher prices for US consumers overall. Based on logic, that was true, but when President Trump lowered taxes and regulations on the US economy, that boosted the nation’s job market. Consequently, such actions increased disposable income for American households so Americans did not feel overwhelmed by higher prices for consumer goods.

Apparently, Chinese trade negotiators had viewed bilateral trade issues mainly from an economic perspective without taking into consideration the cultural impact and overall harm inflicted on the working poor and the middle class in America’s heartland. By not fully understanding the American dream, Americans’ fervent wishes to protect their individual liberties, their faith in God, and steadfast commitment to protect the nation’s manufacturing base, Chinese negotiators had underestimated Trump’s popular appeal with American voters.

American trade negotiators had also made some flawed assumptions about Chinese society which delayed their ability to reach an agreement with Beijing in a quicker manner. They could have resolved a lot of the major issues of concern in trade talks in the first few months of trade negotiations had they simply shown greater respect to Chinese cultural mores. It is time to take a closer look at Chinese belief systems and their cultural attitudes in our contemporary times.

Chinese Values

The Chinese remain firm believers in “saving face,” meaning not to be shamed in public. If Chinese are publicly criticized, they take it to heart and would feel driven to take revenge against their critics. In this scenario, they can only save face by taking revenge on the person who has harmed their image. When Trump was on the campaign trail for the White House in 2016, he had delivered speeches which claimed China was “raping”¹² Americans on trade issues. That in itself was a very offensive remark and the Chinese were shocked. They understood that American politicians were seeking to win elections and would often criticize China to capture more votes, but to be called “rapists” had inflicted a deep wound in their hearts which would be hard for them to forgive.

For Americans, saving face is rarely a concern. They can insult each other face-to-face and find that humorous, but the Chinese have been raised to be concerned over what people think about them. That is why many of them do not have an argumentative nature; even when angry, they rarely lash out in public forums. They keep a poker face and wait for an opportunity to strike back against their opponents when they least expect it. Everybody does have emotions as well as strengths and weaknesses in their character, and for the Chinese, saving face means not showing weakness, but strength, not conveying anger or panic, since that would be deemed as signs of weakness.

President Xi sets the tone in saving face as leader of China. In photos of him in public, he tends to show a calm demeanor in which he is neither in a rage nor exhilarated with enthusiasm. He displays a serious face at most times while conveying a dignified presence in front of others. That draws a sharp contrast to President Trump who is well-known for his public displays of anger and humor. Xi is saving face as a public servant and a representative of the Chinese people, so he does not want to look as if he cannot control his inner emotions. In all likelihood,

¹²BBC News, “China accused of trade ‘rape’ by Donald Trump”, <https://www.bbc.com/news/av/world-us-canada-36185275/china-accused-of-trade-rape-by-donald-trump> (May 2, 2016).

when hearing that Trump called the Chinese “rapists” on trade, Xi had probably felt very disturbed by it and likely wanted to get revenge.

Although, none of Xi’s aides had gone on the record to say so, it was probable that President Xi had shown reluctance to move forward on a US–China trade agreement at the beginning of talks on account of Trump’s harsh words about the country when campaigning to be elected as US President. Another important matter to address would have been over the misunderstanding that many Americans have that American values are very different from Chinese values. Americans harbor fears that the Chinese would act aggressively if they became more powerful and wealthier, and they would set their sights on globalist domination with Chinese characteristics.

Americans may harbor fears that the American way of life that has been protected by the US Constitution and its defense of individual liberties, faith in God, and the free market system could be at risk if the Chinese became strong enough to wage a war against them. Yet such fears are misguided. They fail to recognize that a majority of the Chinese are not interested in fighting America or other sovereign nations. As of 2019, many Chinese continue to feel inspired by Deng Xiaoping’s “reform and opening up” policies. They believed that it is their patriotic duty in accordance with the Chinese dream to keep getting richer for themselves and their families.

The Chinese care more about improving their standards of living by earning higher incomes for their households, and they view war as a serious disruption of the nation’s path to prosperity. They do not wish for war and do not want Beijing to provoke wars. Despite common Western perceptions, the Chinese are not zealots about Communist hegemony, but loved capitalism just as much as Americans do, perhaps even more so. As stated earlier, Deng’s speeches had made constant references in praise of Mao, but he did so for political self-preservation. All Chinese officials were expected to pay tribute to the late Chairman Mao and the principles of the CPC when delivering speeches.

Although Chinese officials frequently mention socialism with Chinese characteristics, when meeting official members of the CPC in a friendly manner, it is rare for them to praise Marxism as the right

solution to resolve the current challenges confronting the Chinese economy. Americans may find the above statement hard to believe, but think about it in this manner. Many people from all over the world have watched Hollywood movies and are very familiar with American pop culture. Consequently, many people have wrongly concluded that Americans live lavish lifestyles, party almost every night, and regularly engage in hedonistic activities such as sleeping with many sex partners, drinking heavily and telling jokes all the time.

That was nowhere near real life for regular Americans. Very few Americans live in mansions, drive sports cars, wear fancy clothes and jewelry while partying too much. If the world can have misguided stereotyped views on the Americans, it is understandable that the world can also have misunderstandings of the Chinese. Traditional family values have continued to play a prominent role in Chinese society, just as in the US, but with notable differences. Many Americans have long supported Judeo-Christian values while the Chinese have remained enamored with Confucianism and Taoism.

As such, social harmony has taken priority in how the Chinese orientate their lives. According to an article posted by the Carnegie–Tsinghua Center for Global Policy, China’s values have had a direct impact on “national psychology and identity.” When trying to understand the Chinese, one should take into account their core values which are: harmony, benevolence, righteousness, courtesy, wisdom, honesty, loyalty, and filial piety. The terms here seemed self-explanatory, but harmony, benevolence and righteousness deserve a deeper explanation. We can refer to different citations to gain deeper understanding on the matter.

Harmony (as cited by the *Epoch Times*):

Harmony can be interpreted as the ideological concepts of conscientiousness, concordance, peacefulness and gentleness. Harmony and peacefulness are at the core of Chinese traditional culture. The ideal of harmony between nature and humans suggests that humans should respect and appreciate nature and follow the guiding principles of the universe. In addition to respecting and protecting nature, we should understand that harmony is conducive to the

generation of all living beings. When cultivating ourselves, we should have a peaceful mind, when dealing with others we should follow the principle of harmony, not uniformity or mindless consensus, and when governing a country we should fully understand that if the government functions well, harmony will be achieved among people and between nature and man.¹³

Benevolence (as cited by *ForeignerCN.com*):

Benevolence is the first and most important virtue among the Five Constant Virtues. It manifests itself in the inner mind in love and compassion for people and in avoiding harm or envy toward anyone. In terms of behavior, benevolence demands that one be amiable, not wrangle with others nor do evil deeds. To cultivate one's attentiveness to Benevolence, one should use another Confucian version of the Golden Rule: What one does not wish for oneself, one ought not to do to anyone else; what one recognizes as desirable for oneself, one ought to be willing to grant to others. Virtue, in this Confucian view, is based upon harmony with other people, produced through this type of ethical practice by a growing identification of the interests of self and other. In short, as parents treat their children, the benevolent person spares no effort to help others; one even lays down one's life to this end, with no thought of being repaid.¹⁴

Righteousness (as cited by *ForeignerCN.com*):

Righteousness in contrast to benevolence involves thinking and acting from one's own viewpoint. It demands rational action, self-restraint to resist temptation and the fortitude to do one's duty. Above all righteousness is about preserving one's integrity.¹⁵

Although one could make a valid argument that many Chinese in today's world have failed to live by the precepts of their nation's core values systems, but at least it demonstrates what moral principles the

¹³The Epoch Times, "Harmony: One of the most precious elements in China culture", https://www.theepochtimes.com/harmony-chinese-culture_1528988.html (October 7, 2008).

¹⁴ForeignerCN.com, "The five constant virtues of China", http://www.foreignercn.com/index.php?option=com_content&view=article&id=5047:the-five-constant-virtues-of-china&catid=1:history-and-culture&Itemid=114.

¹⁵*Ibid.*

Chinese people are striving for. They seek social harmony, goodness in their hearts and to show strong ethical actions in front of others, which is very similar to America's Judeo-Christian values. A Bible passage, Luke 6:31, reads: "Do to others as you would have them do to you." The concept of social harmony could apply to American values as well. Hence, the rise of China is more about a matter of trust concerns: can the Chinese be trusted to maintain social harmony in international relations if the nation becomes a superpower?

Apparently, any nation that rises in status to become a global powerhouse could raise concerns that they will abuse their powers and embark on a hegemonic path. Many critics held similar sentiments at the rise of the US as a superpower. Washington had the sole superpower role as of 2019, and Americans had grown accustomed to being in the top ranking for international economy and diplomatic influence. Therefore a large number of Americans see the Chinese rivalry as sinister in tone. However, when reviewing the overall philosophy of Confucianism which still influences China in contemporary society, one should relax and view the Chinese in a more positive light. Many of those living in China in 2019 can attest that Chinese people have continued to act in accordance with their long-cherished traditional and peaceful values.

The Chinese are firm believers in family and have relied on familial ties, friendships and social relations (known as *guanxi* in the Chinese language) to boost their career prospects, to improve living standards, and to maintain relative peace within their local communities. For the Chinese, the ties that bind are family ties. President Trump loves the slogan "America First" while many Chinese support "Family First." The Chinese also recognize the basic precepts of the "rule of law." They believe that to attain strong social cohesion, citizens are expected to obey laws as well as to demonstrate good manners in public. That is known as propriety, which favors adhering to a code of blending in with others. If many people are calm and quiet, a Chinese person would likely act in a similar manner. Accordingly, many of them will not try to blow against the wind just for the sake of causing a public nuisance.

The “follow the crowd” mentality of many Chinese should reassure the outside world that they do not seek China’s domination over the world. Yet that also explains how China’s Cultural Revolution spun out of control, since many Chinese followed the rabble-rousers who sought to inflict psychological and physical tortures upon any persons or groups of people they deemed enemies of the China. The whirlwind of rage and hate which spread during the Cultural Revolution in the country was exactly like a “brainwashing” as described by Deng Xiaoping. The lesson learned here should be that the Chinese can be like calm waters, but when the lightning strikes and a storm blows in, one should beware of inciting the howls of Chinese wrath.

Fortunately, the Chinese have drifted away from the mores of the Cultural Revolution and, entering into 2019, have embraced the idea of pursuing the path of prosperity, materialism, striving to do better than their peers, work hard and study hard, while never losing hope. But one could use the same description on our current American society. The money-rich culture did not always breed benevolence and altruism, but when people preferred to chase after wealth they were less likely to encourage or instigate wars. Accordingly, when reviewing ancient Chinese philosophy, the readers will often see a set pattern of values that are all closely aligned with each other. Here is a list of common terms:

Harmony, benevolence, righteousness, courtesy, wisdom, honesty, filial piety, proper, balance, rational, objective, truth, law, propriety, suitability, appropriateness, friendship, justice, loyalty, humility, self-discipline, commitment, correctness, prudence, diversity, respect (mutual respect and win-win), courage, firm, fortitude, heroic, kindness, peace, charity and equilibrium.¹⁶

When reviewing the terms, one could conclude they apply to people with a simple code of ethics, which is to act righteously for the common good. Many Americans would agree that they should behave in a

¹⁶Carnegie-Tsinghua Center for Global Policy, “China’s traditional culture and national identity”, <https://carnegietsinghua.org/2013/11/21/china-s-traditional-cultural-values-and-national-identity-pub-53613> (November 21, 2013).

similar manner. Why would anyone disagree with such attitudes unless they prefer to live in a disordered world? Americans might think the Chinese lack sincerity in upholding their moral code, but many others who hear about Americans expressing their religious convictions are likely to be as confused when they tend to act more like hypocrites. It is human nature for a person to have both good and bad character traits.

Many Americans view the battle between of good and evil from either a spiritual context or, if they are non-believers of a religion, from a framework of political correctness, political ideologies or other ethical frameworks they were born and raised with. This explains the routine format of blockbuster Hollywood films that depict heroes and villains but always with a happy ending with the hero prevailing. The Chinese movies that became more popular from the late 1990s to the turn of the 21st century also depict heroes and villains but often with tragic endings, leaving viewers feeling despair over the fate of the characters. It appears that the Chinese have a more realistic understanding of the battle between good and evil than the Americans do. Good people are not expected to succeed in every challenge set before them and hence the Chinese realize that fate has remained indomitable; sometimes we can overcome obstacles while at other times we fail.

The Chinese are not naive in the ways of the world, although they often praise Confucian values. They also hold a deep understanding of Taoism (The Way), as well as the “*yin* and *yang*” that explains the constant swirl of moral forces and events that are a mixture of both good and bad. Many Americans view the world in a more objective fashion in which they place people into categories: believer or non-believer; good or bad; smart or stupid; beautiful or ugly, talkative or quiet; emotional or calm; with the list going on endlessly. Chinese, on the other hand, see life and society as a continuous cycle of change. *The Internet Encyclopedia of Philosophy* defines Taoism and the “*yin* and *yang*” as:

The term *Dao* means a road, and is often translated as “the Way”. This is because sometimes *dao* is used as a nominative (that is, “the *dao*”) and other times as a verb (i.e. *daoming*). *Dao* is the process of reality itself, the way

things come together, while still transforming. All this reflects the deep seated Chinese belief that change is the most basic character of things. In the *Yi jing* (Classic of Change) the patterns of this change are symbolized by figures standing for 64 relations of correlative forces and known as the hexagrams. *Dao* is the alteration of these forces, most often simply stated as *yin* and *yang*. The *Xici* is a commentary on the *Yi jing* formed in about the same period as the DDJ. It takes the *taiji* (Great Ultimate) as the source of correlative change and associates it with the *dao*. The contrast is not between what things are or that something is or is not, but between chaos (*hundun*) and the way reality is ordering (*de*). Yet, reality is not ordering into one unified whole. It is the 10,000 things (*wanwu*). There is the *dao* but not “the World” or “the cosmos” in a Western sense.¹⁷

In other words, many Chinese witness the world in a constant state of flux and change with nothing staying the same. This can best be understood from a Chinese proverb, “Time is like a river — it flows by and doesn’t return.” And as such, the Chinese are different than Americans who tend to believe that they can become “masters” of their own fates. The Chinese view society as interchangeable and one should not rely on outside forces to achieve greatness in life. Either you succeed or not, and there is no need to praise or blame yourself, because fate makes the ultimate judgment call over one’s life. By recognizing the fatalistic viewpoint of the Chinese nature, we can see for ourselves that the Chinese do not wish to act as aggressors. But they still will show a resolute commitment in courage and be prepared to fight to the death if necessary despite feeling restricted by the fortunes of fate.

Accordingly, we should not have been surprised that the initial instigator of US–China trade wars was not Beijing. Chinese President Xi, although a firm believer in social harmony, had the heart of a sleeping dragon and was prepared to counterattack with “fire and fury” if he felt “the rejuvenation of the Chinese nation” stood at risk of imminent danger. With the onset of tough trade talks that were set to ensue after Donald Trump entered the White House in 2017, Beijing and Washington were inevitably sweeping into tumultuous times.

¹⁷Internet Encyclopedia of Philosophy, “Daoist philosophy”, <https://www.iep.utm.edu/daoism/>.

President Trump hired Steve Bannon, former editor-in-chief of *Breitbart News*, as chairman of his US Presidential Election campaign team shortly after he had won the GOP nomination in 2016. Trump made this strategic alliance with a political operative who had a lifelong agenda to encourage Washington to wage trade wars against Beijing. When speaking to *National Interest*, Bannon claimed to be a “China hawk.” He hoped President Trump would stand tough in upcoming US–China trade talks with Beijing, while Chinese trade officials were not planning to back down if they had felt bullied by the White House.

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Part II

Eruption of Trade Wars

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Chapter 4

Prepping for Trade Talks

The single biggest weapon used against us and to destroy our companies is devaluation of currencies, and the greatest ever at that is China. Very smart, they are like grand chess masters. And we are like checkers players. But bad ones.

Donald Trump, speaking at campaign rally in Manchester, NH, June 20, 2016.

We (Chinese) are resolved to fight the bloody battle against our enemies ... with a strong determination to take our place in the world.

Chinese President Xi Jinping, speaking at 13th National People's Congress, Great Hall of the People in Beijing, China, March 17, 2018.

Big global players like China need to do a better job of respecting human rights.

Canadian Prime Minister Justin Trudeau.

US Draws Up Trade Wars

In the summer of 2016 at the height of the US presidential campaign season, Republican Party nominee Donald Trump was floundering in the voters' polls against Democratic Party nominee Hillary Clinton and there had been much dissension within Trump's campaign team leadership. The then campaign manager, Paul Manafort, seemed to be in way over his head in running the operations. Billionaire hedge fund manager, Robert Mercer, had called for an emergency private meeting with the GOP nominee so he could introduce Stephen Bannon to Trump. Bannon had become famous for taking charge of Los Angeles-based

news website *Breitbart News* that was founded by the late conservative media mogul Andrew Breitbart and had emerged as one of the most influential conservative media outlets in the US.

Bannon played a pivotal role in catapulting *Breitbart News* to success by generating a huge surge of readers and advertising revenues in 2016. Mercer believed that Bannon could help Trump fix his stumbling campaign that was beginning to look DOA (dead on arrival) before the upcoming elections on November 8, 2016. According to Bannon's description of their fateful meeting in June as mentioned in media reports, they all embarked on a lengthy discussion about China.

Bannon's assessment which he stated during his first one-on-one meeting with Trump was that China, not Russia, would emerge as the biggest rival to US interests in the decades to come. He insisted that China had already waged a grand economic war against America and at the moment was winning with huge momentum, while prospects looked even dimmer for the US should Hillary Clinton get elected to the White House. Bannon, when assuming the mantle as chairman of Trump's campaign, was also drawing up plans to implement trade wars against Beijing should Trump get elected to the White House.

The blueprint of the US–China trade wars was to make negotiations “unprecedented large and unbearably painful for Beijing,” according to interview transcripts posted by *Politico*. Bannon had viewed China as an evil nation, comparing the Chinese government to Germany's Nazi regime. “A hundred years from now, this is what they'll remember — what we did to confront China on its rise to domination,” *The New York Times* quotes him as saying. Historically, Germany in the 1930s was when Hitler had risen to power and had begun to make expansionist maneuvers to conquer the rest of Europe and to transform the continent into a Nazi superstate with dreams of a “1,000-years' Reich.”

Bannon also claimed the younger generations of Chinese citizens were becoming stronger in their patriotic zeal and that had kindled a martial spirit in them. He expressed fears that the Chinese would wish to provoke and wage future wars against enemy nations, including Japan, the Philippines, Vietnam, and the US. He argued that the real war had already begun over three decades ago when China had started

to emerge stronger on the economic front by amassing a cumulative total of over \$3.5 trillion in trade surpluses from the 1990s until the end of 2016.

In his mind, the economic war was intended to destroy the US manufacturing base, to rip apart America's heartland, and to create a huge divide between Wall Street investment bankers and small-town Americans. The Chinese model was an amazing success story because the Chinese government had poured in huge sums of subsidies and support so that Chinese exporters could dump their excess capacity on American consumers at dirt-cheap prices in apparent efforts to bankrupt American manufacturers. He also highlighted such details when he delivered a highly-anticipated speech in Hong Kong in September 2017 at a conference sponsored by CITIC Securities, China's largest state-owned brokerage company.

He depicted China as a villain without taking into consideration that many Chinese had viewed the rise of their great nation as an opportunity to prove Beijing had peaceful intentions on the world stage. The dark phrases employed by Bannon could explain why Trump never trusted him as an adviser. He was fired from his job as White House chief strategist a few months prior to his Hong Kong speech. A few weeks after his Asian tour, the media posted stories claiming that he was cited as the frequent source of gossip for Michael Wolff's best-selling book *Fire and Fury* that described the Trump White House as immersed in chaos. In the book, Bannon was quoted making slanderous comments on the record about President Trump and his immediate family members.

In the aftermath, Trump took to Twitter denouncing Wolff's book and giving Bannon the nickname "Sloppy Steve"¹ to insinuate he had poor hygiene habits and often wore clownish-looking suits while he

¹Twitter, @realDonaldTrump, "Liar and phoney", https://twitter.com/realDonaldTrump/status/949498795074736129?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweetembed%7Ctwterm%5E949498795074736129&ref_url=https%3A%2F%2Fdailycaller.com%2F2018%2F01%2F08%2Fwhite-house-smacks-down-bannons-apology%2F (January 5, 2018).

was formally employed at the White House. Other GOP leaders in Washington had weighed in on Bannon's demise. US Representative Peter King (New York) was quoted on CNN as saying, "This guy does not belong on the national stage. He looks like some disheveled drunk that appeared on the stage."

It appeared that Bannon was not such a brilliant geopolitical strategist after all, but just a man who had soaring ambitions with a matching ego, who made numerous mistakes in analyzing events that were playing out in Washington and around the world. His expertise on China should not have been considered remarkable. He was a firm believer in "Red China" conspiracy theories, calling for the island of Taiwan to declare its independence from Beijing. He opposed the "One-China policy" that declared there was only one country of China despite the fact that mainland China and Taiwan have different political systems. Additionally, Bannon had predicted Washington would go to war against China within the next five years over territorial disputes in the South China Sea.

Bannon was not the economic populist he had claimed to be but a warmonger against Beijing. He had tried to manipulate President Trump in order to ensure that Beijing would endure "unbearably painful" battles.

Chinese President Xi was fully aware of Bannon's anti-China speech in Hong Kong and issued an indirect response a few months later at the Two Sessions of the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) in March 2018 when he gave a three-and-a-half-hour uninterrupted monologue at the Great Hall of the National People's Congress. That was where Xi had been elected to serve a second 5-year term as president. Additionally, the NPC had adopted a resolution to strike out term-limits for the nation's top leadership position, meaning Xi could, if re-elected, become president for life in the country. Xi's speech was very firm and he spoke without pause, not even taking a sip of water or showing any sign of physical or emotional weakness.

His speech was filled with many inspirational phrases for the Chinese, reiterating that Beijing wished for world peace but if provoked

into a military conflict, the Chinese would not surrender without a fight. He reminded all those listening that China would be prepared to wage a “bloody battle” to regain its rightful place in the world and added, “The Chinese people have been indomitable and persistent, who have the spirit of fighting the bloody battle against our enemies to the bitter end”.² Xi had delivered ominous words to the world at large and many observers feared that it sounded like a declaration of war against Washington, right at the very moment when the US–China trade wars had just begun to flare up.

Nevertheless, when taking a closer look at the full transcripts, it was not a direct signal for war over trade talks since Xi had welcomed globalization and had urged for free trade agreements and treaties to continue to flourish among nations. Instead, he was criticizing sovereign governments that were marching ahead on deeper and stiffer trade protectionist measures. Bannon was granting interviews and boasting to the public that Trump would easily win trade wars against China. He said that Xi, as a face-saving gesture, wanted to remind all Chinese and the rest of the world that Beijing would not bow to pressure and call for a truce on trade talks with Trump in order to avoid the pain that had been inflicted upon its national economy. Xi wanted to sign a win-win trade agreement with Trump and thus far, as of March 2018 when Xi gave his speech, the White House trade negotiators were not offering an amazing deal which the Chinese government could accept with a smile.

The year 2018 was when US–China trade wars went into overdrive, which meant that trade officials from Beijing and Washington were expected to draw up proposals, counter-proposals and long-term strategies to prepare for rancorous, tempestuous and bare-knuckled negotiations that might even drag on for the next few years, not merely months as many experts had initially expected.

In the short time period after Donald Trump was elected US President (November 8, 2016) until his Inauguration Day (January 20, 2017), his

²Jamaica Observer, “Empowered Xi says China ready to fight ‘bloody battle’”, http://www.jamaicaobserver.com/latestnews/Empowered_Xi_says_China_ready_to_fight_bloody_battle?profile=1228 (March 20, 2018).

transition team had to focus on two main priorities — to recruit and designate Cabinet members and political appointees to the White House, as well as to formulate major themes for the incoming administration. On the campaign trail as the Republican Party nominee, Trump had vowed to cut taxes for American workers, reduce corporate tax rates, slash burdensome regulations on US businesses, create more jobs in the country, support “America First” policies and fight for fair trade deals by promising to scrap North America Free Trade Agreement (NAFTA). He pledged that Washington would no longer remain as a signatory member of the UN Climate Change pact and Trans-Pacific (TPP) agreements as well. The TPP had sought a multi-party all-in-one free trade agreement with North America, Oceania and Asian countries. Trump had also sought to take a tougher stand against China over cross-border trade and investment issues.

Although nearly all Trump voters and registered Republicans had appeared to be in near unanimous agreement in support of lower taxes and fewer regulations plus creating more jobs, a heated debate had ensued between major donors of the GOP, mainly wealthy business people and ordinary Americans from Middle America, over plans for the “America First” agenda. In a battle of Wall Street versus Main Street, senior executives of US-based multinationals, investment bankers, international business lawyers, lobbyists, and leading hedge fund managers had remained supportive of globalism and everything that it had entailed. They wanted Trump to continue with the *status quo* of international trade agreements since they had benefited so much financially from such circumstances.

Yet Trump was elected with strong support from America’s working-poor voters, especially in the Rust Belt states that had helped him to clinch electoral victory to the White House. Many of them opposed the globalist values endorsed by Wall Street and called for the new President to stay true to “America First” principles. Trump had made it clear with his inaugural address and his selection of trade war hawks to serve in the White House that it would no longer be business as usual in regard to US–China trade ties. Trump had taken to Twitter, delivered speeches, and focused his energies at the White House to warn Beijing that they

must make dramatic changes in their government policy and to make significant concessions that were requested by Washington or they would bear the inevitable consequences of trade wars that could substantially harm the Chinese economy in their immediate aftermath. President Trump had explained his reasons for adjusting US trade policy with China. He and his trade team blamed China for reaping the rewards of huge trade surpluses with the US that had amounted to over \$2.4 trillion from 2001 to 2016. He pointed out that China had maintained low valuations on the Chinese yuan to the US dollar by cumulatively purchasing a total of more than \$4 trillion of US Treasuries and public debt in the past four decades. China's currency had been intentionally valued lower to the US dollar. This made Chinese imports more attractive to American consumers since they could purchase them at cheaper prices compared with "Made in America" products.

Meanwhile, the Chinese government had failed to follow the rules and objectives that were required of them from their WTO membership. To enhance fair trade principles, WTO members were expected to stop subsidizing enterprises that would export their goods and services overseas since that would give them unfair competitive advantages. As of the end of 2018, Beijing had refused to budge and had continued to provide generous support for its SOEs by ordering China's state-owned banks to hand out preferential loans at low interest rates to public entities.

The Chinese government had also been accused of stealing the intellectual property (IP) of American firms doing business in the country by enforcing stringent tech-transfer measures, such as requiring US companies to sign joint ventures with Chinese companies to open up factories or to enter into the domestic supply chain networks. China's joint venture regulations had forbidden US firms from holding more than 50% market share on such projects, but American enterprises were required to provide the details of their technology secrets when applying for joint ventures. Chinese companies investing in projects in the US, including joint ventures, were not required to follow the same standards and were not mandated to do tech-transfers on an involuntary basis.

Apparently, foreign multinationals had received subsidies, lower costs on land, and promises of tax reductions should they choose to set up operations in China, but in return they were expected to transfer the company's high-tech secrets and documents in order to obtain such privileges.

The Chinese government also forced American companies to sell their licensing agreements and branding presence in the China market at below market values. China imposed rigid restrictions on US companies entering the country, particularly in banking, insurance, finance, and the equities markets. Chinese SOEs engaged in dumping their excess capacity via exporting to the US and selling them at below-market prices, which caused a high number of American manufacturers going bankrupt with swarms of factories shutting down, leading to significant job losses nationwide. Consequently, Trump insisted that Beijing must discontinue all such practices. President Trump had set terms on his bare minimum expectations should both sides wish to sign a bilateral trade agreement together.

On May 31, 2018, the President and CEO of the US National Association of Manufacturers, Jay Timmons, published an open letter to Beijing which was posted on CNBC.³ He highlighted the White House's expectations on trade talks and called for a US–China bilateral trade agreement that would be “fully-enforceable, rules-based” that implemented “open, fair and reciprocal” trade deals.

The Chinese could no longer steal IP, mandate tech-transfers on joint ventures, “undercut prices in the global marketplace” and had to abide by WTO rules just like all other members did. Timmons reiterated the three main goals for a successful US–China trade agreement.

1. Eliminate tariffs and discriminatory practices that prevented US companies from selling US-manufactured goods to China.
2. End the Chinese policy that granted advantages to Chinese companies which distorted the free market system.

³CNBC, “Here's the ‘real solution’ to the trade war that will make China ‘play by the rules’”, <https://www.cnbc.com/2018/05/31/trump-can-end-china-trade-war-with-enforceable-trade-pact.html> (May 31, 2018).

3. Create clear and binding enforcement tools to ensure the US could hold China accountable.

President Trump warned that if Beijing stayed stubborn, he would move forward on raising tariffs and rates on an increasing number of Chinese imports. Apparently, the Chinese government decided to ignore the dire warnings coming from the White House at the initial stages of trade talks.

China's Laggard Response

When looking back in history at US–China trade ties in the past few decades, Beijing had apparent reasons to ignore Trump's demands since prior US Presidents — Jimmy Carter, Ronald Reagan, George H.W. Bush, Bill Clinton, George W. Bush and Barack Obama — had made pledges before getting elected that they would get very tough on China over unfair trade practices, while Clinton and Obama had even claimed they would label China a “currency manipulator”, when they had entered the White House. But in nearly all cases, the US Presidents had failed to deliver on their threats against Beijing and had also granted more advantages that the Chinese government could exploit for their economic gain, such as when Bill Clinton granted a permanent most-favored nation (MFN) status to US–China trade ties. Beijing had thought Trump would be no different than his predecessors, and he appeared to have anticipated such a predictable response from the Chinese side. Even after Trump had increased tariffs on over \$250 billion worth of Chinese imports as of September 2018, Beijing still refused to budge on many matters in trade talks, causing the Trump administration to feign frustration over China's inactivity in an official press release issued by the White House on September 17, 2018:

For months, we have urged China to change these unfair practices, and give fair and reciprocal treatment to American companies. We have been very clear about the type of changes that need to be made, and we have given

China every opportunity to treat us more fairly. But, so far, China has been unwilling to change its practices.⁴

Although the Trump administration claimed to be disappointed about China's sluggish response, the US President was neither fooled nor surprised. When first announcing trade actions against China in March 2018, he explained at earlier press conferences and in his tweets that Beijing had long been accustomed to receiving empty threats from prior US presidents. He noted that, historically, trade officials from Washington would confront Beijing and demand concessions, and the Chinese government would typically respond by offering to discuss matters later and keep dragging on talks until the US side had run out of patience so they could continue with the *status quo*. In short video clips from the White House, you can watch Trump addressing such scenarios in the past.⁵

Nevertheless, President Trump did not view China's past behavior as repugnant, saying he would have done the same if he were born Chinese and had been appointed as their nation's president. In November 2017, President Trump had taken a 10-day tour of Asia and made a two-day state visit to China where he met with Chinese President Xi in Beijing. In efforts to act more diplomatically when addressing the reasons for his pursuing tougher US–China trade talks while allowing Xi and the Chinese people to save face, Trump did not blame China for unfair trade deals before he had arrived in the White House. Trump's tweet on November 7, 2017:

I don't blame China, I blame the incompetence of past (administrations) for allowing China to take advantage of the U.S. on trade leading up to a point where the U.S. is losing \$100's of billions (annually). How can you blame China for taking advantage of people that had no clue? I would've done same!⁶

⁴The White House, "Statement from the President", <https://www.whitehouse.gov/briefings-statements/statement-from-the-president-4/> (September 17, 2018).

⁵C-SPAN, "President Trump announcement on China tariffs", <https://www.c-span.org/video/?442963-1/president-trump-makes-china-tariffs-announcement> (March 22, 2018).

⁶BBC News, "Trump does not blame China for 'unfair' trade", <https://www.bbc.com/news/business-41924797> (November 9, 2017).

In a follow-up tweet, Trump wrote:

But I don't blame China. After all, who can blame a country for being able to take advantage of another country for the benefit of its citizens? ... I give China great credit.⁷

Although many American politicians and reporters had denounced Trump's tweet as supposedly unpatriotic, but from a logical perspective, it made sense. Prior administrations at the White House were reluctant to take a strong stand against China over trade imbalances, IP thefts, cyber-hacking attacks, forced tech-transfers, China's flagrant breaking of WTO rules and many other matters of crucial concern related to US–China trade relations. Beijing had taken a huge gamble hoping President Trump would back down on raising tariffs or imposing other punitive measures against China that would negatively impact their economy.

Perhaps, Chinese trade officials had concluded that President Trump might not even serve out his full four-year term in office. They were likely reading numerous media reports claiming that Democrats in the US Congress and US Senate as well as high-level government officials in the Executive Branch were sabotaging Trump's actions at the White House, while a number of leading figures in the Democratic Party were calling for Trump's impeachment, including US Congresswoman Maxine Waters (California), Minority Chairwoman of the House Finance Committee. Meanwhile, billionaire hedge fund manager and Democrat mega-donor Tom Steyer had funded and recruited candidates to help Democrats take over the majority in US Congress and succeeded with big wins in the 2018 mid-term elections. When US Representative Nancy Pelosi (California) took over the gavel as House Speaker in January 2019, she stood prepared to make life much more difficult for Trump.

Apparently, Chinese trade officials did not think they would have to face off against Trump in full-scale trade wars, but their approach to delay and stall had proven counterproductive. By ignoring Trump's threats, the US President had felt his bluff was being called, so he was

⁷ *Ibid.*

compelled to increase tariff rates on Chinese imports. Beijing could have requested negotiations and compromise, but Chinese trade officials had responded with counter-tariffs on their own, “tit-for-tat tariffs,” and had blocked a number of major shipments of US imports such as soybeans and liquefied natural gas (LNG) deliveries from passing through Chinese Customs. Hence, both nations had set the course for engaging in trade wars. And who were the key players involved in US–China trade negotiations? Let us take a closer look.

US–China Trade Teams

US Side

When Donald Trump was still US President-elect, he and his transition team had been hunkered down at Trump Towers in midtown Manhattan, New York City, the home office of Trump’s vast real estate development empire. His political aides were assigned to recruit, conduct interviews and select top-notch officials who were expected to take charge of trade negotiations against China. Trump and Bannon had both insisted that those hired for the crucial task should be expected to stay supportive of “America First” ideals and would develop a strategy if Trump asked for them to confront Chinese trade officials in a more aggressive manner.

The designated leader of the US trade negotiations team was US Commerce Secretary Wilbur Ross. Before accepting the appointment, Ross was a billionaire private equities investor, founder and director of WL Ross & Co., an investment firm. Prior to starting his own company on Wall Street, he served as a long-time investment banker for Rothschild Inc. His areas of investment expertise were in the coal, manufacturing, banking, and steel sectors. He was well known in the international finance community as a brilliant investor and deal-maker.

Ross had been involved with negotiating on many large-scale business deals where Chinese business partners had played crucial roles. Based on his experiences, he was well versed on the Chinese economy and its unique business culture. When entering into US–China trade talks, he had granted a series of interviews with business news media

outlets explaining Trump's overall trade strategy and his understanding of China's current economic status. President Trump enacting "tariffs are not an end game, but rather as a negotiations tool to encourage trade partners to stop cheating," CNBC quoted Ross as saying. Trump's tariffs were intended as "defensive" to "level the playing field"⁸ that would create the right terms for fair trade deals.

Meanwhile, Ross believed the US was entering into trade talks with an upper hand since China had more to lose and its economy was not as vibrant as many economists had assumed. He claimed, without citing verifiable evidence, that Beijing was not accurately reporting its annual GDP figures. He had harbored doubts that the Chinese government was succeeding in transforming the country into a consumer-driven economy. He pointed out that China's largest driver of economic growth appeared to have been capital investments, such as infrastructure spending and real estate purchases, which he said had accounted for 44% of China's economic activities in 2016. His analysis seemed prescient after US–China trade talks had started to get much more intense. Chinese trade officials responded with outrage whenever Trump announced new tariffs on Chinese imports, which may have led a few negotiations experts to wonder why so?

The English playwright William Shakespeare had a famous line, "The lady doth protest too much, methinks" from the play Hamlet. For skilled negotiators, the meaning alludes to how one party fears losing its bargaining power so they display anger at the opposing party, hoping the scare tactics could gain them extra bargaining chips. According to statements from China's Ministry of Commerce, trade officials had insisted the national economy was running strong and if President Trump was to enact more tariffs on Chinese imports, that should cause little harm to the country. Yet when China responded with counter-tariffs, it seemed that Beijing was wounded much more than it had claimed to be.

⁸CNBC, "CNBC Exclusive: CNBC Transcript: Commerce Secretary Wilbur Ross Speaks with CNBC's 'Power Lunch' Today", <https://www.cnbc.com/2018/12/12/cnbc-exclusive-cnbc-transcript-commerce-secretary-wilbur-ross-speaks-with-cnbc-power-lunch-today.html> (December 12, 2018).

Nevertheless, not everyone serving on Trump's trade team was a fervent trade war hawk. US Secretary of Treasury Steve Mnuchin could best be described as a dove in trade talks. He had worked as an investment banker for Goldman Sachs for 17 years after graduating from Yale University and after that he founded a number of successful hedge funds while carving a substantial fortune for himself. Alongside Wilbur Ross, he had close ties to Chinese business community circles, but unlike Ross, he preferred to take a softer tone when negotiating with Chinese trade officials.

Mnuchin had recruited Gary Cohn, one of his colleagues from Goldman Sachs, to serve as the White House Economic Advisor, but Cohn faced difficulties adapting to the Trump White House environment. He departed from Washington about a year after accepting his appointment. Cohn's replacement was Lawrence Kudlow, a well-known figure on CNBC and other business news media outlets, who had long been recognized as a staunch defender of the Republican Party. He endorsed free market-oriented policies and had remained a fervent believer in free trade and globalism. He was a former Bear Stearns investment banker and associate director for economics and planning at the Office of Management and Budget at the White House during President Reagan's first term in office (1981–1985). It appeared that Trump had hired trade officials who were hawks and doves, hoping to establish some balance in confronting Chinese officials. One could view it as a good-cop and bad-cop strategy in order for Trump to stay unpredictable.

Trump, a successful deal-maker, said it was essential to stay unpredictable when negotiating. At times, you show a conciliatory approach and at other moments you demonstrate toughness. Hence, his trade war hawks were hardcore zealots, thinking in a similar manner to Bannon. The leader of the trade hawks was Robert Lightizer, who was appointed as US Trade Representative and chief trade negotiator. He had proven to be a relentless negotiator as an international trade lawyer in Washington, who had delivered remarkable results against insurmountable odds. Before coming to the White House, he worked for the Washington-based law firm Skadden, Arps, Slater, Meagher and Flom,

and his clients were US steelmakers who fought against anti-dumping and anti-subsidy cases at the WTO. He had won important cases and when accepting his assignment to work under Trump, he issued a press release saying he would “fight for trade deals that put the American worker first.”⁹

Although Lightizer would champion the cause of trade war hawks at the White House, his appointment sparked little excitement from the mainstream media.

But the announcement of the appointment of bestselling author Peter Navarro to become the head of a new agency — the National Trade Council — ignited a firestorm of controversy from the global media and the Chinese government. He was a tenured professor of economics and finance at the University of California’s Irvine School of Business. He had no experience negotiating deals in the business world and his only understanding of supply chain networks and China’s economy were from what he had read in textbooks or biased news reports. He had written popular books that vilified China, such as *The Coming Wars: Where They Will Be Fought, How They Can Be Won* and *Crouching Tiger: What China’s Militarism Means for the World*, and captured media attention producing by the 2013 Netflix documentary *Death by China*, based on his book of the same name and narrated by Hollywood legend, Martin Sheen. Navarro was a frequent commentator in the media castigating China, calling them “cheaters, thieves and cancerous.” According to an excerpt from his book *Death by China*, the London-based newspaper the *Guardian* quotes Navarro as describing the Chinese government as:

The Chinese government is a despicable, parasitic, brutal, brass-knuckled, cross, callous, amoral, ruthless and totally totalitarian imperialist power that reigns over the world’s leading cancer factory, it’s most prolific propaganda mill and the biggest police state and prison on the face of the earth ... nightmarish realm where the stench of a gut-wrenching, sweat-stained fear

⁹United States Trade Representative, “Robert E. Lightizer sworn in as United States Trade Representative”, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/may/robert-e-lightizer-sworn-united-states> (May 15, 2017).

hangs in the air, and myopic, venal and incompetent party officials, rule the roost.¹⁰

According to *Forbes* magazine, Navarro had also weighed in on China's politically sensitive topics. One of Trump's leading trade officials had argued that China's One-China policy (one China but two systems of government) over the island of Taiwan should be declared invalid. He sided with John Bolton, US National Security Director and a leading figure of the neoconservatism movement that supported efforts by Washington to wage wars of attrition against Russia, Iran and China. In an interview with *Breitbart News*, Bolton declared that Washington should open up an embassy in Taipei, the administrative capital of Taiwan, and to recognize Taiwan as a sovereign state independent from mainland China. Navarro also predicted that the US and China would eventually get embroiled in a hot war over the South China Sea in the next five to 10 years, according to an excerpt in his book, *Crouching Tiger*, cited by Forbes:

From what I can see and my Chinese wife can see, China will probably soon implode ... The Communist Party of China (CPC) will probably try to get the population to focus outside the country, probably through conflicts in the South China Sea or Taiwan ... China could steal Spratly Islands then take Taiwan.¹¹

Navarro demanded that President Trump deploy American troops to Taiwan. Nonetheless, when Navarro wrote his bestselling books on China, he had never bothered to visit the country while conducting his research, nor did he learn the Chinese language, and seemed

¹⁰The Guardian, "Brutal, amoral, ruthless, cheating: how Trump's new trade tsar sees China", <https://www.theguardian.com/world/2016/dec/22/brutal-amoral-ruthless-cheating-trumps-trade-industrial-peter-navarro-views-on-china> (December 22, 2016).

¹¹Forbes Magazine, "Trump's appointment of Peter Navarro to trade post sends belligerent signal to China", <https://www.forbes.com/sites/charlestiefer/2016/12/21/trump-pick-navarro-means-dangerous-coming-wars-with-china/#6510ceb5e7df> (December 21, 2016).

unaware of a basic understanding Chinese traditional culture and its contemporary society. He had rushed to conclusions about China by reading books and news articles, and many materials he had cited from in his books were mostly anti-China writings. He viewed China from a narrow-minded, neoconservative ideological scope that failed to recognize other crucial variables in play, such as realizing that many Chinese citizens were leading ordinary lives and had not shown much concern over politics. Navarro used only a political viewpoint to judge the country, which he deemed to be as an outright evil nation. And in March 2018, Navarro appeared to have persuaded Bolton to participate in US–China trade talks, which had added more fuel to the fire. Understandably, Chinese trade officials were not pleased with such developments.

China's Side

To find a simple listing of China's top trade officials playing a role in US–China trade talks by reading news reports is no easy task. Beijing is secretive and discloses public information on the inner workings of its government only on a need-to-know basis. Beijing prefers to remain a mystery to the outside world, since they also recognize the value of staying unpredictable when engaged in diplomacy and international trade deals. Yet, one can start to figure out who the key officials in trade talks are by understanding the hierarchy and organizational charts of the Chinese government. Unlike the US trade officials appointed by Trump, chosen leaders in China will have risen through a series of promotions.

They are required to join the CPC, to attend training and education seminars to learn more about the country, the inner workings of the government, and to start networking with peers. Officials are expected to start from the bottom and progress through the levels of government — village, county, municipal, provincial, and central government — after initially applying for a civil service job and passing a nationwide exam. Xi Jinping had become China's President by following this path through the CPC promotions system.

Therefore, the Chinese President and Premier were recognized as the top two leaders of the country. The President was more like the chief executive officer of the country, the visible figurehead and final decision-maker of all key government issues, while the Premier was looked upon as the chief operations officer, the official who would be in charge of implementing and enforcing the policies mandated by the nation's President. China had a State Council consisting of Cabinet members, head officials of important government agencies, and leading members of the CPC politburo. While Xi was serving as China's president, Li Keqiang was the Chinese Premier.

This explains the Chinese government hierarchy system. Just as US Commerce Secretary Wilbur Ross was recognized as the top trade official in Washington, we could conclude that his counterpart, China's Commerce Minister Zhang Shan, held similar powers and influence in his country. Meanwhile, by reviewing news media reports on US–China trade talks, other key Chinese figures, as of November 2018, were: Chinese Vice President Wang Qishan, Vice Premier Liu He, Deputy Trade Negotiator Wang Souwen, Fang Xinghai, a senior securities markets official, and Foreign Minister Wang Yi.

And by taking a closer look at related news articles, Chinese trade officials were leaning toward a more hawkish stance in the trade wars in defense against stronger countermeasures in retaliation against Trump's US–China trade policy. Fang Xinghai was often cited in interviews and news reports as the leader of the trade hawk wing since he was usually quoted as saying that China would never surrender on trade talks and insisted that Beijing should not give in to outside pressures that were urging the Chinese government to call for a truce over bilateral trade negotiations. One could view him as the Chinese version of Peter Navarro.

But the Chinese government also supported a system of think tanks that operated at China's leading universities in Beijing and other megacities around the country, such as the Chinese Academy of Social Science (CASS) based in Beijing. Many researchers were working behind the scenes to formulate policy for government decision-makers. One can find their names and influence when the central government publishes white papers on matters of crucial concern to the nation.

Beijing had issued a number of white papers to address US–China relations and its impact on trade ties.

The white papers tended to be written in a more diplomatic manner and avoided using belligerent language on sensitive issues. Whereas China’s top trade officials appeared to be trade war hawks, the researchers and think tanks seemed to side more with the doves, similar to US officials appointed to the White House National Economic Council. Accordingly, both the US and China’s trade teams had to maintain a balance between trade war hawks and doves. The two sides had recognized this as a high-stakes game in the geopolitics of the balance of powers in world affairs. Neither side wanted to lose out, but could they find areas of common ground? President Trump believed there was a solution for the two most powerful and richest countries in our world to unite in agreement. He defined the solution with just one word —”reciprocity.”

US Request for Reciprocity

The idea of reciprocity is a very simple concept, particularly in regard to trade issues. For example, one country, known as Party A, had imposed 20% tariffs on cotton imports from another country, Party B. By engaging in reciprocity, it would be expected that Party B would impose exactly the same rates on cotton imports from Party A. Nonetheless, requesting reciprocity is never as easy as it looks since a number of variables are at play here. Sovereign governments have to take numerous other factors into account, including how to address supply chain networks. We shall continue with the case assuming that both Party A and Party B do seek reciprocity in trade tariffs. Party A could be a major supplier of cotton for itself and the world markets, but might not have opened many textile factories there which required cotton materials to make clothes. Accordingly, Party A might be better served by not imposing a 20% tariff rate on cotton from Party B if that country was not a supplier of cotton as a source of raw materials to produce goods for export, but instead this country had many textile factories that did need cotton. By requesting reciprocity in trade, Party A

would be harder hit by the 20% import duties than Party B would as the end result would be that citizens from Party A would end up paying more for clothes.

Accordingly, President Trump's call for reciprocity in trade with China was fraught with peril since a trade action can often cause unintended consequences and a backlash. In ideal circumstances, calls for reciprocity can be most effective when both nations have already agreed to terms and given forewarning about imposing new trade duties. Reciprocity is the best solution when both countries have agreed to abolish tariffs on each other, as this will prevent counter-tariffs or other punitive trade measures from going into effect. Yet, for reciprocity to succeed, trust is required, and oftentimes nations would take shortcuts or exploit the generosity of their trade partners.

Hence, Trump raising tariffs on China's imports while requesting reciprocity could be viewed as a strategic maneuver. China could respond in two ways — either match tariff rates with US import duties, or retaliate with the hope that tough measures would cause enough pain to President Trump and the US economy that the White House would feel compelled to call off its higher tariffs on China. Yet again, China's leading trade officials appeared to have misunderstood President Trump and his motives. At the beginning stages of US–China trade talks, Beijing had imposed harsh countermeasures against the US. Consequently, President Trump refused to budge and continued to impose more tariffs on Chinese imports.

China's retaliatory response also angered US Ambassador to China, Terry Branstad, former governor of Iowa, who had a close personal 30-year friendship with President Xi. When Branstad was serving as governor, he had met Xi face-to-face at a party when Xi was visiting Iowa with a delegation of Chinese agriculture researchers looking to engage in cooperation deals with Iowa farmers. The state was well-known for raising crops and livestock, and its farmers had played a significant role in the state's economy.

Many Iowan farming families grew soybeans. Although these may not have been popular with American consumers, for the Chinese, it was a different story as they considered the food very healthy and nutritious for eating and also for pig feed. Eating pork was very popular

for the Chinese as well. In 2017, American soybean farmers had exported over \$12 billion of the soybeans to China, and Iowan farmers were making preparations to deliver even larger shipments of soybeans to China in the upcoming year. But right after Trump started to increase tariffs on Chinese imports in March 2018, Beijing retaliated by having China's Customs block the delivery of US soybeans. In regard to matters of face in China, Branstad had good reason to feel insulted by Beijing's actions. Branstad had earlier spoken publicly against the US trade wars, and Iowan farmers were severely impacted by China's retaliation. Branstad may have felt betrayed by his friend, Xi. Eventually, he would respond by posting a letter to the public that was published by the *Des Moines Register*. He wrote:

I ran a small business in Kansas before I came to (US) Congress. I saw how companies were treated differently when they attempted to do business, where they were trying to sell goods into China or to purchase goods, to export from China. I watched how American companies were treated unfairly, differently, a different set of rules. If they wanted to invest in my business in Kansas, they could have. Had I wanted to invest in a Chinese supplier there, I couldn't. These are fundamentally unfair. The American people know that and Trump is going to fix it.¹²

Based on common sense, reciprocity in trade could have been applied under such conditions. The US government had welcomed FDI and permitted foreign companies to take control of their investments. But the Chinese government insisted on mandating foreign companies to sign joint ventures with a Chinese company in order to receive permission to conduct business there. Was that really fair? One could argue that the emerging markets did deserve to impose some protectionist measures on FDI and imports since those countries were not wealthy and needed some advantages before they could be prepared to compete against larger foreign-based companies in the global economy. But China could not

¹²Des Moines Register, "Responding to China's ad in the Des Moines Register, Trump's ambassador calls out China", <https://www.desmoinesregister.com/story/opinion/2018/09/30/trump-administration-china-compete-level-playing-field/1452878002/> (September 30, 2018).

make that argument anymore; although they were still considered to have developing market status, the nation had already risen to become the world's second-largest economy and the leading trade exporter.

Beijing had an obligation to level the playing field in trade and investments or they would risk other nations, as well as the US, to launch trade wars against them in the future. Although, President Trump loved to act unpredictable, he had never wavered about his expectations from China on bilateral trade talks. His primary focus was to call for reciprocity in trade deals. The White House had issued a formal statement on May 29, 2018 explaining why the US would continue to impose more tariffs on China unless Beijing took action to respond without retaliations. The White House cited unfair trade actions by the Chinese government, saying:

China imposes much higher tariffs on United States exports than the United States imposes on China.

China's average tariff rate is nearly three times higher than the average United States rate.

Certain products are even more imbalanced, for instance the United States charges a 2.5 percent tariff on Chinese cars, while China currently maintains a 25 percent tariff on cars from the United States.

China has banned imports of United States agricultural products such as poultry, cutting off America's ranchers and farmers from a major market for their goods.

China has dumped and unfairly subsidized a range of goods for the United States market, undermining America's domestic industry.¹³

By reviewing the statement, just imagine if the roles were reversed and it was the US, not China engaging in such practices. Should one conclude that Beijing would feel honor-bound to confront Washington if unfair trade measures were imposed on them? Of course, the Chinese government

¹³The White House, "President Donald J. Trump is confronting China's unfair trade policies", <https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-confronting-chinas-unfair-trade-policies/> (May 29, 2018).

would feel enraged and demand resolution. It seemed odd they would protest so much against Trump's trade actions. They did not support reciprocity in trade, because that would have inflicted short-term harm on the national economy, but if they had made adjustments by demonstrating reciprocity, other countries would have viewed the country in a much more favorable light. At the time, many foreign governments and companies were struggling to trust China on account of its refusal to demonstrate reciprocity with its trading partners. The White House press release made clear its concerns over China's forced tech-transfers by saying that:

The cost of China's intellectual property theft costs United States innovators billions of dollars a year, and China accounts for 87 percent of counterfeit goods seized coming into the United States.

United States Trade Representative's (USTR) Section 301 investigation identified four of China's aggressive technology policies that put 44 million American technology jobs at risk:

Forced technology transfer;

Requiring licensing at less than economic value;

Chinese state-directed acquisition of sensitive United States technology for strategic purposes; and

Outright cyber theft.

China uses foreign ownership restrictions, administrative review, and licensing processes to force or pressure technology transfers from American companies.

China requires foreign companies that access their New Energy Vehicles market to transfer core technologies and disclose development and manufacturing technology.

China imposes contractual restrictions on the licensing of intellectual property and technology by foreign firms into China, but does not put the same restrictions on contracts between two Chinese enterprises.

China directs and facilitates investments in and acquisitions of United States companies to generate large-scale technology transfer.¹⁴

¹⁴ *Ibid.*

Yet again, the White House cited Beijing's failure to pursue reciprocity here. China as a sovereign nation had every right to introduce and enact its own laws. Nobody was disputing that, but when a country implemented stringent regulations on foreign companies seeking to do business in their own country, they should not complain when other nations imposed the same rules on them. What was fair was fair. Accordingly, Trump had acted in a full and transparent manner when announcing new tariffs on China. In the same White House statement, President Trump revealed his game plan on future tariffs to be imposed on China in the upcoming months, which read as followed:

In August 2017, the Administration initiated a Section 301 investigation into China's practices related to forced technology transfer, unfair licensing, and intellectual property policies.

After USTR completed its Section 301 report in March 2018, the President directed the agencies to explore numerous actions to protect domestic technology and intellectual property.

Under President Trump's leadership:

The United States will impose a 25 percent tariff on \$50 billion of goods imported from China containing industrially significant technology, including those related to the "Made in China 2025" program. The final list of covered imports will be announced by June 15, 2018.

USTR will continue WTO dispute settlement against China originally initiated in March to address China's discriminatory technology licensing requirements.

The United States will implement specific investment restrictions and enhanced export controls for Chinese persons and entities related to the acquisition of industrially significant technology. The list of restrictions and controls will be announced by June 30, 2018.¹⁵

From an economics standpoint, the Chinese could not make a strong argument in their favor. In the business world, all parties involved in deal-making were expected to assume reciprocity as

¹⁵ *Ibid.*

appropriate, since fairness was crucial to establish trust, integrity, and win-win benefits for those prepared to sign contracts. If President Xi wishes to sign a trade deal with President Trump, he must take the first step by making concessions in support of reciprocity. But President Xi did not act in such a manner throughout much of 2018, from January to October. Instead, Beijing raised trade tensions higher by enacting more retaliatory measures against Trump. Xi had placed the Chinese economy at risk by refusing to accept legitimate calls for reciprocity on trade and investments with the US. The Chinese were pragmatists at heart, meaning they could adapt to changing times and were willing to show compromise, but in this instance, Xi had not acted pragmatically and we have to explore why that had happened.

China: Stop the Politics

When President Trump started to impose tariffs on China, he thought Beijing would call for a truce soon afterwards since they had more to lose. After announcing his first round of tariffs on the country on March 2, 2018, he tweeted, “trade wars are good and easy to win.”¹⁶ But obviously, the Chinese proved that Trump’s optimistic forecast was woefully inaccurate. Chinese trade officials had responded with swift retaliatory tactics on their part, and just a few months later, they had even refused to participate in face-to-face discussions with their US counterparts. Vice Premier Liu He attempted to break the ice by making trips to Washington and requested to meet with top US trade officials at the White House, but by August he and other Chinese trade officials had stopped taking formal trips to Washington. They decided to hunker down in Beijing, believing that no compromise was in sight.

With regard to tariffs, tech-transfers, protecting IP rights and changing the rules on joint ventures, Beijing could have resolved these matters in a prompt manner. However, Chinese President Xi was the final decision-maker over US–China trade talks, and he made the fateful decision not to offer any concessions and refused to abide by reciprocity

¹⁶Twitter @realDonaldTrump, <https://twitter.com/realdonaldtrump/status/969525362580484098?lang=en> (March 2, 2018).

principles during these stages of trade talks. In hindsight, many economists and diplomatic experts closely observing China felt that Xi made a grave error in judgment here, but saving face was a crucial matter in Chinese culture and Xi would have lost more by signing a trade agreement with Trump if it had appeared that he was surrendering too soon. That would have shocked Chinese citizens, who could have lost faith in their leadership. President Xi had promised his people that the Chinese government would fight bloody battles to the bitter end if they felt its national sovereignty was at stake.

President Xi, the Chinese government and its citizens were concerned the White House was making unnecessary political demands of China, not just requesting concessions over trade and investment concerns. The Chinese expected its leadership to stand strong if Washington acted as a bully since they believed Beijing and Washington were on equal terms as world powers. If Xi had looked in a hurry to sign a trade agreement with Trump, that would have given the impression that Washington was more powerful than Beijing. For the Chinese, that was bad optics for them. Even if they had to suffer the consequences of a sluggish economy as a result, that would be a preferred choice rather than to surrender to Washington's political demands.

The Chinese were all the more suspicious since Navarro and Bolton were starting to play larger roles in US–China trade talks in the summer of 2018. Navarro had made his feelings clear to the Chinese long before, when he was working as head of the White House National Trade Council. He wanted Taiwan to declare its independence from Beijing and his books mocked the Chinese government. As a professor, accustomed to life in academia, he had no experience as a business negotiator and deal-maker, yet Trump had hired him to play a leading role in trade talks. Chinese trade negotiators were shocked they had to address their concerns to a US counterpart who held a visceral hatred of China, demonstrated unstable emotions, and appeared very inexperienced at the negotiating table. Media reports had cited an incident that he was observed screaming at US Treasury Secretary Mnuchin when he learned that he was not invited for a round of trade talks that were scheduled to occur in China.

Upon learning of Navarro's unprofessional behavior, Chinese trade officials had played it smart by asking Navarro not to visit their country. He probably would have ignited an embarrassing international incident and that could have caused negative diplomatic repercussions for President Trump as well. Navarro should never have been appointed for such an important role in the White House. Additionally, he was a lifelong California Democrat who campaigned in failed bids to get elected to the San Diego City Council. He could not even get himself elected as a city councilman, yet Trump had assigned him to draw up blueprints for US global trade strategy. His only qualifications seemed to be that he hated China and he had a PhD. And so, Navarro's mere presence had proven disastrous for Trump's trade team. With Navarro acting so rudely and obnoxiously toward the other side of the negotiating table, Chinese officials felt they had to respond with fire and fury on their side. They used delay tactics and refused to seek a common consensus with Washington over many issues of concern.

To Chinese trade officials, Navarro was just a nuisance since they had a bigger problem with Bolton. The director of White House National Security not only agreed with Navarro on matters related to China, but he held more power and influence in the Trump administration. In matters of protocol, Navarro ranked at a much lower level than Bolton did in the Trump administration. He was not a cabinet member, nor assigned to the National Security team. In all certainty, Navarro enjoyed few executive privileges, such as getting opportunities to have one-on-one meetings with Trump at the Oval Office. He was just not important enough to be invited to the Oval Office unless his boss Lightizer allowed him to come along.

On the other hand, Bolton had Trump's ear during Cabinet meetings or when Trump was addressing foreign policy. By reviewing photos one can observe Bolton sitting very close to Trump on frequent occasions, which connotes real power in the Washington Beltway. The person appearing in photos next to the US President, as an aide, was deemed to hold vast powers. As a neoconservative, Bolton viewed China as an enemy state, not as a potential trade partner. He did not wish for China to succeed on the world stage and if he had held the

power to do so, he would have derailed and sabotaged US–China trade talks. Beijing could call for a trade truce and agree to all demands from Trump, and Bolton would still have insisted China was wrong and would urge Trump not to sign a bilateral trade agreement with China.

When Bolton worked for the think tank American Enterprise Institute and when he served as UN ambassador representative for the US when George W. Bush served in the White House (2001–2009), he was known as a war hawk begging for Washington to invade China, Iran, and Russia. Bolton had not refrained from continuing with his belligerent acts and tough talk while working for President Trump, who promised American voters in his 2016 campaign that he would stop Washington’s involvement in endless wars around the world. Trump had proclaimed himself a presidential candidate that favored world peace, but his appointment of Bolton in the White House appeared to have been a sharp contradiction of his prior peace pledge. In October 2018, Bolton was quoted in interviews saying he urged US naval warships to sail into disputed territorial waters in the South China Sea.

He claimed that over \$5 trillion worth of mercantile trade had passed through shipping lanes in the South China Sea in 2017, so he requested the US Navy patrol the zone to ensure a “passage of safety” for all cargo. Beijing did not condone the US Navy entering its declared waters, designated by what they call the Nine-Dash Line. Meanwhile, Vietnam, the Philippines, Japan, Malaysia, North Korea and South Korea all had different territorial claims in the waters of the South China Sea and the Sea of Japan, while Vietnam strongly disputed China’s territorial claims. If Bolton had moved forward on his plans to deploy the US Navy to sail into Chinese-declared waters, that could have sparked an Asia-Pacific War that could lead to World War III. If that had ensued, the risk of a nuclear apocalypse could very well have arisen. Bolton was making a high-risk gamble over the South China Sea and Beijing was not amused.

One could conclude that when Bolton invited himself to the US–China trade talks, Beijing felt it had no choice but to delay negotiations fearing that Bolton would make political demands that they could never accept. Beijing endorsed the “One-China policy” as defined in the “1992 Consensus” that inferred that the People’s

Republic of China and the island of Taiwan were one country with two political systems. Beijing had repeatedly reminded the US and all other world powers that if Taiwan formally declared its independence, this would result in war.

The Chinese believe Taiwan is their territory and they will not cede their claims of jurisdiction over the island. For instance, the Chinese media is forbidden to call Taiwan a country, according to government regulations. Beijing does not wish for war against Taiwan and the US, but if provoked, peace cannot be assured. In the book, *Xi Jinping: On the Governance of China*, the Chinese President defines his understanding of the development of cross-straits relations.

In a speech, he said:

The current peaceful development of cross-Straits is beneficial to both sides, and no one wants to reverse such a favorable trend. For this reason, the two sides must consolidate and hold fast our common foundation of the “1992 Consensus” and our opposition to “Taiwan Independence”, and be fully aware of maintaining the one-China framework. Such a foundation is the anchor for cross-Straits relations. Only when our vessel is at anchor will we be able to “sit tight on the fishing boat despite the rising wind and surging waves”. As long as a solid foundation is maintained, the prospects of cross-Straits relations will continue to grow brighter. If the foundation is jeopardized, the relations will go back to turbulence and instability. Only recently, a consensus was reached at a meeting of the heads of departments in charge of cross-Straits affairs from both sides, which is conducive to the all-around development of cross-Straits relations.¹⁷

One should note that Xi had delivered the speech on cross-straits relations when Barack Obama was in the White House and before Trump had launched his presidential campaign. In 2014, few people were expecting Trump to become the next US President. Beijing had insisted on maintaining peaceful cross-straits ties and despite tensions in the region, hot wars had not erupted yet. But Bolton’s presence in the White House set a disturbing tone for overall US–China ties. Beijing could not and would never agree to terms that allowed for

¹⁷Jinping Xi, *Xi Jinping: The Governance of China, Vol. 1* (Shanghai, China: Shanghai Press, 2015), 263.

Taiwan to be recognized as a sovereign nation, and Beijing would not sign any trade agreement that would insert such language into the document. Apparently, Trump's strategy to stay unpredictable and to politicize trade talks with China had not gone according to plan.

Trade wars were not easy to win, as Trump had learned the hard way. In all likelihood, if Trump had avoided adding Navarro and Bolton to his trade team, talks with China could have been resolved in the first half of 2018. Beijing had expressed a keen interest to show compromise and conciliation, open up its markets to American businesses and to narrow the trade imbalances between both countries. But Bolton and Navarro's constant interfering had led to disastrous results. Yet, Chinese trade officials were not blameless either. Each time Trump had increased tariffs on Chinese imports, Beijing had retaliated by setting higher tariffs on US imports, which made trade wars much more inevitable.

It is important to ask: could US–China trade wars have been avoided? Was Beijing sincere in claiming they would make amends over past failures to establish fairer trade deals with the US and all other countries of the world? Did Trump have to impose higher tariffs on China, making them feel the “shock therapy” which would create the momentum for Beijing to reform its trade tactics and to consider a halt on subsidizing its SOEs? As a matter of fact, President Trump had given China plenty of warning, suggesting they could still resolve trade disputes with the US.

It seemed as if Chinese trade officials were not taking the US President's warnings seriously and had taken a huge gamble in believing Trump was bluffing. Perhaps when President Trump had called President Xi a “world-class poker player,”¹⁸ this could have sent the wrong signals to Beijing as they had concluded this statement served as further proof the US President was bluffing. Analyzing the implications of Trump's warnings and how Beijing had responded to them, it seems Chinese officials had made another bad judgment call on Trump and it is important to understand why that happened.

¹⁸CardsChat News, “Donald Trump calls President Xi of China ‘world class poker player’”, <https://www.cardschat.com/news/donald-trump-calls-president-xi-of-china-world-class-poker-player-63849> (May 23, 2018).

Chapter 5

To Bluff or Not to Bluff

President Xi is a world-class poker player.

US President Trump speaking at the White House, May 17, 2018.

The future is encouraging and inspiring. But happiness does not fall from the sky. We shall establish a spirit to prevail and continue to immerse ourselves in hard work.

Chinese President Xi, New Year's speech, December 31, 2015.

You gotta know when to hold 'em, know when to fold 'em, know when to walk away, know when to run.

Country singer Kenny Rogers' song *The Gambler*.

Not Taking Trump Seriously

Chinese trade officials had more to lose economically in the long run before US–China trade battles ensued, so it seemed odd they would engage in delay and stall tactics at the early stages of bilateral talks. Additionally, they had responded with harsh retaliatory measures immediately after President Trump had imposed the beginning rounds of higher tariffs on Chinese imports. Consequently, Trump had taken even tougher countermeasures on Beijing along with enforcing stiffer restrictions on Chinese inbound FDI flowing into the US market. Trump was not bluffing, but each time he delivered a trade warning threat to Beijing, they just called his bluff or dismissed such matters by openly daring him to make good on his threats. Accordingly, that had caused more painful consequences to the Chinese economy. They made

huge errors in judgment while Trump joked about President Xi, calling him a “world class poker player” during a press conference at the White House on May 17, 2018. Apparently, China was not playing with a winning hand here.

Chinese trade officials may have walked into trade talks under the assumption that Trump would either get impeached by a vote in Congress and the Senate, or betting that his own Cabinet members would invoke the 25th Amendment of the US Constitution which permitted them to declare the sitting US President as “unfit for office.” In other words, they would claim Trump was insane, which would mean Vice President Mike Pence would replace him at the White House. But as noted earlier, many Chinese trade officials were relying on Western media reports to gather information on the Trump administration. They had received biased and slanted reports that were largely negative and exaggerated to the extreme over each Trump-related crisis. And that explains why many Chinese officials had concluded Trump would not stay in the White House much longer.

Meanwhile, if Trump were to be forced out of office, the nation could witness a so-called “Civil War II” in which pro-Trump and anti-Trump forces would be clashing on the streets. The societal chaos would have led to an inevitable decline of the US as a superpower state and that would have been much worse than Trump staying in power. Although the Democrats had retaken control of US Congress after the 2018 mid-term elections, the Senate remained in the hands of a Republican Party majority. There was little chance of them voting for Trump’s impeachment since that required a two-thirds majority vote in its favor. Yet for the first two years of the Trump administration, Chinese trade officials had acted as if they thought the US President would be impeached or that he would be distracted by the swirl of scandals that were exposed by the US media. Hence, they believed he might forget to launch punitive trade actions against Beijing.

Accordingly, Beijing, as well as most of Trump’s critics had underestimated him while not recognizing that his loyal fan base would continue to support him under most circumstances. Trump could learn quickly from his mistakes and seemed to get smarter with each passing

day that he worked in the White House. He did not buckle under pressure nor did he worry about the media hating him. Trump wanted to be a reformist President and understood that US politicians wanting to maintain the *status quo* would oppose his efforts every step of the way. Trump had no “middle way,” because his rivals had refused to compromise; it was either their way or the highway for them.

The New Yorker magazine reporter Evan Osnos had dubbed Trump’s enemies as the so-called “Deep State,”¹ which was composed of Democrat lawmakers, the media, lobbyists, special interest groups, and government officials appointed by former President Obama, but they did not resign as expected when Trump swept into power. Other enemies of Trump included some Republicans, known as Never Trumpers (conservatives who hated Trump) and RINOs (Republicans in name only), who were moderates and often sided with Democrats on crucial legislative votes. Trump was surrounded by enemies all over the Washington Beltway, and he had proposed to “drain the swamp” to root out corruption in Washington and Wall Street circles. Trump was also combating Big Business since they favored globalism alongside a continuation of unfair trade practices by China. Trump stood little chance of winning in the White House, but he kept charging ahead amid all the chaos.

How did Trump survive in such a treacherous political climate? It was believed that one of his all-time favorite books was the Chinese masterpiece *The Art of War* written by Sun Tzu over 2,500 years ago. Sun Tzu had composed a guidebook of principles for readers about how to achieve success on the battlefield or when confronting rivals in politics and elsewhere.

Media reports had claimed that Trump was a firm believer in *The Art of War* and relied on its principles when he prepared his campaign bid for the White House in the 2016 Presidential elections, as well as making use of Sun Tzu’s strategies after he came into power in Washington. To best understand the success of Trump’s political survival methods

¹The New Yorker, “Trump vs. the ‘Deep State’”, <https://www.newyorker.com/magazine/2018/05/21/trump-vs-the-deep-state> (May 21, 2018).

and his rise to power, one should read *The Art of War*, particularly the first chapter entitled “Laying Plans”. The principles 19–25 demonstrate a clear connection to Trump’s political actions while serving as President. The principles 19–25, read as follows:

19. Hence, when able to attack, we must seem unable, when using our forces, we must seem inactive; when we are near, we must make the enemy believe we are far away; when we are far away, we must make him believe we are near.

20. Hold out baits to entice the enemy. Feign disorder and crush him.

21. If he is secure at all points, be prepared for him. If he is in superior strength, evade him.

22. If your opponent is of choleric temper, seek to irritate him. Pretend to be weak, that he may grow arrogant.

23. If he is taking his ease, give him no rest. If his forces are united, separate them.

24. Attack him where he is unprepared, appear where you are not expected.

25. These military devices, leading to victory, must not be divulged beforehand.²

Trump appeared to have practiced the principles listed above with rigorous self-determination. For example, in regard to Principle 19, Trump played an underdog role during his political rise. He seemed unlikely to succeed from the very first day he made his campaign announcement. He had entered the race for the GOP nomination with pollsters and pundits claiming he had only garnered about 1%–2% support from solid Republican voters. Meanwhile, 13 other well-known Republican candidates thought Trump was playing the fool. Trump was near them, but his GOP rivals thought he was far away. When Trump had toppled them as he gave them goofy nicknames: “Low Energy Jeb” Bush (former Florida governor), “Lil Marco”

²Sun Tzu, *The Art of War*, Principles 19–25.

Rubio (US Senator for Florida), and “Lyn Ted” Cruz (US Senator for Texas). They had been blindsided by his tactics.

Moving onward to Principle 20, which could describe the daily routine of the Trump administration according to media reports — President Trump had mastered the art to “feign disorder.” Two already-published books — Michael Wolff’s *Fire and Fury* and *Fear*, authored by a perennial Washington insider Bob Woodward — both had allegedly highlighted detailed accounts of chaos in the Trump White House. Yet many officials quoted in those books — White House aides, Cabinet members and Trump’s inner circle — had issued strong denials they had spoken on the record to disparage their boss, which had led some to wonder if Trump had played Wolff and Woodward for fools. He could have encouraged his staff to feed false gossip to the book authors, which could be easily debunked as conspiracy theories. If so, the US President had played his “trump card” here.

Trump’s tweets hinted at the stratagem of Principle 21. His pattern for tweeting had demonstrated an attempt to confront his enemies when necessary but to evade them at other times. Trump said he was not a fan of Twitter but would use it to get his message out because the media had rarely told his side of the story. But his evasions occurred when a new scandal about him and his administration had just emerged. He waited one or two days before responding with denials in a tweet storm. The pattern had shown how his rivals would think they had finally gotten Trump running scared, but he was only preparing a counterattack in the meantime.

With regard to Principle 22, many people who had worked closely with Trump throughout his life had taken note that he did not appear to have a “choleric temper” when talking to people one-on-one. It was possible that at times when showing his fiery nature, he was just putting on an act to keep his rivals and friends off-balance. The theory held further validity as a few reporters claimed that he had a split personality, very polite and charming during one-on-one interviews with him, but firing back blasting comments about fake news when he took the stage at political rallies. But Trump lacked the humility to show weakness,

proving that he could not apply all of Sun Tzu's strategies to his political plans.

In reviewing Principle 23, there is no denying Trump is a workaholic. He was quoted in his best-selling book *The Art of the Deal*, saying that a typical work day for him was to arrive at the office at around 6 am or earlier and to keep working until midnight. He only required four hours of sleep for his mind and body to function properly. He needed little rest and had the energy to fight his rivals, day in and day out. A closer look at Principle 24 also explains why Trump loves to stay unpredictable. Fighting the enemy requires an element of surprise so that when they are attacked, it is unexpected. Some days, Trump had appeared to be in high spirits and was praising people, but on other days he acted like a dragon slayer by torching his rivals.

Principle 25 seems self-explanatory. Why would anyone reveal secrets to the enemy? Yet it had happened more often than people would imagine. When Trump challenged Clinton in the second debate of the 2016 Presidential campaign, he was asked about his plans to fight the war in Syria. Trump responded by reminding voters that the Pentagon should not "reveal plans" to the public before striking since the enemy could easily exploit that. This may sound like simple common sense, but his critics in the media and Democratic Party operatives mocked him. It had become commonplace for US defense officials to leak secret battle plans to the media when waging the endless wars in the Middle East. President Trump wanted to halt such practices.

Observing how Trump had successfully utilized Sun Tzu's principles from *The Art of War*, it seemed all the more surprising that many Chinese trade officials failed to connect Trump's pattern of behavior with that of the brilliant Chinese strategist. Chinese government officials were expected to read and study *The Art of War* and should have learned how to implement its principles into their work routines. So why did they not recognize that Trump was doing the same as them? Perhaps the Western media stories claiming the Trump administration was in perpetual chaos had stopped Chinese trade officials from recognizing his political brilliance and failing to discover that his mind had been enlightened at a deeper level by Chinese classical

philosophy. Instead, just like many of Trump's political rivals, they badly underestimated him, assuming he was a clown, not a genius.

Section 301, US Trade Act of 1974

Chinese trade officials have often forced President Trump to make good on his trade threats, which meant they had to learn the hard way that he was not bluffing. Meanwhile, the President held sweeping executive authority to impose harsh trade measures against Beijing without requiring prior approval from Congress. Although Trump as a Republican had enjoyed working with a GOP-controlled Congress during his first two years in the White House, he could not trust the then House Speaker Paul Ryan (Wisconsin) to support his legislative agenda, especially in regard to taking tougher trade measures against China.

Ryan was perceived as a rival to Trump, and a lawmaker who seemed to belong to both the NeverTrump and RINO camps of the Republican Party. The former House Speaker was often making the rounds on the Sunday morning TV talk show circuit denouncing President Trump. Ryan claimed that the President had held extremist political views which caused Trump's supporters to joke, "with friends like these, who needs enemies?"

Trump had sought to fight back against China's trade policies, but with unreliable GOP lawmakers on Capitol Hill, he had to rely more on his executive powers and his appointed trade officials at the White House to help him fight back. The Executive Office of the US Trade Representative (USTR) Robert Lightizer and his staff had prepared plans to march ahead on trade actions against China. What they deemed was their winning hand was the little-known and obscure bureaucratic tool that allowed them to launch trade investigations under Section 301 of the Trade Act of 1974. By ignoring the imminent threat of Section 301 at the early stages of US–China trade talks, Beijing had set the stage for long-protracted trade tensions to worsen between both sides.

Had Chinese officials conducted a more careful study of the full process of Section 301, they could have avoided the imposition by

Washington of higher tariffs on Chinese imports in the first place. Another factor in play was that Chinese trade officials had frequently expressed concerns about Peter Navarro while overlooking Navarro's boss — Lightizer. Navarro was not a powerful figure in the White House. If he acted as a public nuisance towards the Chinese, he did so at the bidding of Lightizer. If Navarro had disobeyed orders from the USTR, he would have been fired for insubordination. Navarro was nothing more than a pawn for the USTR, and if Trump had felt displeased about Beijing playing delay-and-stall tactics, his trade team could have asked Navarro to act in a rougher manner.

Perhaps Chinese trade officials were focusing so much of their energies on criticizing and over-analyzing Navarro that they had paid little attention to the USTR actions under Section 301 and were fighting needless battles when it was more important for them to address concerns over that. Meanwhile, President Trump was acting with full transparency since US law forbade the President to enact tariffs against other nations without giving advance notice, opening up public hearings, requesting consultations from China, and alerting the WTO on all related matters. Let us take a closer look at what exactly would be required to launch a trade action under Section 301.

One need look no further than the White House and USTR websites since Section 301 first required a signed memorandum by the President to launch an investigation on Beijing's trade policies. Such actions could determine if China was behaving in an unfair and discriminatory way against US companies doing business in China. The Trump administration and USTR had issued press releases and published statements in the public registry explaining their reasons for taking tougher trade actions against China, while at the same time offering to negotiate a resolution if Beijing showed a willingness to make some concessions. In March 2018, the USTR issued a press release headlined *Following President Trump's 301 Decisions, USTR Launches New WTO Challenge Against China*. The following is an excerpt:

The U.S. consultation request identifies apparent breaches by China of WTO rules, harming the intellectual property rights of U.S. companies and

innovators. The U.S. claims under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) relate to China's discrimination against foreign intellectual property rights holders (Article 3) and failure to ensure patent rights for foreign patent holders (Article 28). This is the Administration's third WTO consultation request.

Consultations are the first step in the WTO dispute settlement process. If the U.S. and China are not able to reach a mutually agreed solution through consultations, the U.S. may request the establishment of a WTO dispute settlement panel to review the matter.

Following a Memorandum from President Trump, on August 18, 2017, the U.S. Trade Representative initiated an investigation under Section 301 of the Trade Act of 1974 into the government of China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.³

Hence, Chinese trade officials could not claim Trump had imposed higher tariffs on Chinese imports without them receiving fair warning. By reviewing all press releases from the USTR and the White House that mention US–China trade talks, they had all followed a similar pattern. The USTR had raised deep concerns over the Chinese government's discriminatory trade and investment practices, forced tech-transfers, and unfavorable licensing agreements that had harmed foreign firms doing business in China, as well as a number of other matters of crucial concern. In the same press release, the USTR said:

Today, the U.S. Trade Representative (USTR) — at the direction of President Trump — filed a request for consultations with China at the WTO to address China's discriminatory technology licensing requirements. The request comes a day after President Trump announced he was directing the USTR to pursue dispute settlement in the WTO to confront China over its policies that result in unfair treatment for U.S. companies and innovators trying to do business in China.

³United States Trade Representative, "Section 301 report into China's acts, policies and practices related to technology transfer, intellectual property and innovation", <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/march/section-301-report-chinas-acts> (March 27, 2018).

China appears to be breaking WTO rules by denying foreign patent holders, including U.S. companies, basic patent rights to stop a Chinese entity from using the technology after a licensing contract ends. China also appears to be breaking WTO rules by imposing mandatory adverse contract terms that discriminate against and are less favorable for imported foreign technology.

These Chinese policies hurt innovators in the U.S. and worldwide by interfering with the ability of foreign technology holders to set market-based terms in licensing and other technology-related contracts.⁴

Apparently, Chinese trade officials had refused to accept the terms of consultations and that had forced Trump to take the next step to file a formal complaint with the WTO Dispute Settlement Panel. If Beijing had called for further talks and pledged to change laws that would open up its markets to American investments, Trump could have called off his threats to impose higher tariffs on Chinese imports. However, China's trade officials had failed to act in a more conciliatory way. For Trump, the next step was to announce the first round of higher tariffs, but still it was only an announcement and could have been disregarded if Beijing had requested more friendly trade talks with the White House. Yet they refused to do so.

Nonetheless, Beijing altered its pattern of behavior after both Presidents — Xi and Trump — had both gathered for face-to-face talks at the Buenos Aires Summit on December 1–2, 2018. Washington had agreed not to increase tariffs on Chinese imports for the next 90 days while Beijing offered to change its stance on tech-transfers and protecting IP rights. Accordingly, China's National People's Congress had passed a new foreign investment law at the “Two Sessions” in March 2019 to address those concerns. The new law had demonstrated that China stood prepared to adjust domestic policies in order to improve bilateral ties with the US.

Let us turn back in time to the moment after the tariffs were first announced in March 2018, a year earlier. The USTR had to allow for a 60-day review process, accept written statements from the Chinese government, think tanks, academics, law firms, lobbyists, business

⁴ *Ibid.*

people, trade associations, and labor organizations. Public hearings were held for US citizens to express their opinions in a public forum. The USTR held hearings on August 20–27, 2018 in which over 350 people delivered statements on the record. At this hearing, people from all walks of life expressed their opinions, some in favor of higher tariffs on Chinese imports, while many others opposed them.

According to *Roll Call*,⁵ Ed Brzytwa, international trade director of the American Chemical Council, told attendees at the hearings that higher tariffs would increase costs for US-based chemical manufacturers since the White House had already imposed duties on imported chemicals and plastics at a total cost of \$2.2 billion annually. Brzytwa had also warned that US chemical manufacturers would be hit hard by retaliatory measures taken by Beijing and would have to pay more duties on the products they exported to China as well.

Yet, Wayne Joseph, president of New Flyer of America, a company that manufactures lithium batteries used for electric-power medium and heavy-duty buses, praised Trump's tariffs at the same hearings. "New Flyer has established its manufacturing operations and supply chain to ensure that its buses and coaches always comply with the United States Department of Transportation 'Buy America' requirements," he is quoted as saying in the same article. In all likelihood, Chinese trade officials could have been relying on Washington lobbyists, Big Business representatives, Wall Street executives, the media, lawmakers, and other sovereign governments to launch publicity campaigns to criticize Trump's actions under Section 301. But they should have known that criticizing the Trump administration would have little impact over how he would make policy decisions.

Trump was not a politician who blew with the wind, expressing opinions that were supported by the majority or following trends to make himself popular. Instead he made decisions based on what he believed was right, even if not popular. Chinese trade officials would have been better served by not hiring lobbyists, but simply asking

⁵Roll Call, "Trump Administration hears day one of China tariff pleas", <https://www.rollcall.com/news/politics/trump-administration-six-days-pleas-china-tariffs> (August 20, 2018).

Chinese President Xi to make phone calls to Trump to create a better atmosphere for behind-the-scenes negotiations. They could have received many more concessions from the White House by embarking on this set of simple procedures.

Chinese trade officials appeared to have made careless mistakes, silly errors in judgments, and grave miscalculations by blindly following Western media reports and getting bad advice from anti-Trump Washington-based think tanks. But Chinese trade officials are not stupid or naive. They had to undergo rigorous training and prove themselves academically superior to their peers before getting hired to work for Xi's trade team. They were not dolts with innocent motivations who had sought to demonstrate patriotism above pragmatism when confronted by the USTR. One could imagine that Chinese trade officials were haunted night and day by the phrase "Section 301", but by refusing to budge, they had permitted Trump to harm the Chinese economy.

Wilbur Ross gave a podcast interview with *Yahoo Finance* on November 13, 2018,⁶ and he described his suspicions that Chinese trade officials had bungled their handling of Section 301 actions by engaging in tit-for-tat sanctions. Perhaps, they were not so worried about Washington imposing higher tariffs on Chinese imports. He surmised that the real issues for Beijing were resolving conflicts over tech-transfers, licensing agreements, IP protections, and regulations on joint ventures that benefited Chinese companies, as well as SOEs that received subsidies from the Chinese government to purchase American companies and take charge of the US companies' proprietary information. The "Made in China 2025 Plan" outlined goals for the nation to dominate in the fields of science and technology while revamping industrial production lines with smart technologies, robotics, and Big Data logistics. Ross believed that China was unwilling to make any concessions to Washington in order to that China would achieve

⁶Yahoo Finance, "Wilbur Ross: investors shouldn't lose confidence because of the unknown", <https://finance.yahoo.com/news/wilbur-ross-investors-shouldnt-lose-confidence-unknown-142509822.html> (November 13, 2018).

long-term success as a high-tech superpower by the year 2025. And if that meant Trump would keep raising tariffs on Chinese imports as China took reciprocal trade actions on US imports and investments, then so be it.

By running with this plausible theory of Wilbur Ross', one can find further validity to such claims by reviewing US–China monthly trade trends starting from March 2018 to the end of the year, as well as taking a closer look at Chinese yuan valuations. In simple terms, Trump had first enacted higher tariffs on Chinese imports beginning on March 1, 2018, charging 25% on China's steel and 10% on its aluminum imports. His intended goal was to reduce the record-breaking US–China trade deficits. In 2017 alone, according to figures compiled and posted by the US Census Bureau, total Chinese imports of goods sent to the US market was valued at \$505.47 billion with US exports to China valued at \$129.89 billion that resulted in a trade deficit for the US of \$375.58 billion. For 2018, the figures stood at \$12,341.4 billion for US exports and \$539,503.4 billion for Chinese imports, leading to US trade deficit of –\$419,612 billion.

Understanding US–China Holidays

According to US–China trade figures for 2017 and 2018, obvious patterns did emerge in which the trade figures were lower for the first half of the year for both US exports to China and Chinese exports to the US. Therefore, it is important to take note of national holidays for the two nations to understand their impact overall on retail sales. For Westerners, Christmas Day — December 25 — is the most celebrated holiday. The Christmas season starts on “Black Friday”, the day after US Thanksgiving Day, when American families celebrate by eating a family meal of turkey with all the trimmings on the fourth Thursday of November. In 2018, Thanksgiving Day fell on November 22.

Black Friday, November 23, 2018, was considered a national shopping holiday with many retail shops offering flashy sales promotions and steep discounts, while consumers were frantically searching to buy Christmas gifts and decorations to prepare for the upcoming holiday

season. Black Friday is usually the first day when chain retailers started to turn their sales into profits for the year, so shops were eager to attract large crowds of customers. Many toys that parents would buy for their children were “Made in China”, along with clothes and other apparel items, since these were much cheaper than “Made in USA” products.

Accordingly, each year, it is expected that there will be a huge surge in US trade deficits with China in the final three months of the year. Merchandisers will stock up on imports to prepare for the bustling Christmas season. Meanwhile, retail sales will drop significantly starting the day after Christmas since American families have spent such large sums to purchase gifts and decorations for the holidays. In 2018, the average American was forecast to spend \$633 for the holiday season according to a survey posted by the Lend Edu website. By aggregating average household figures for each family’s expenditure on gifts, decorations and to host parties and to welcome family gatherings at home, that totaled up to the thousands of US dollars.

Consequently, an individual adult American would likely amass on average of over \$1,000 of credit card debt. According to MagnifyMoney’s post annual holiday debt survey, the average debt total was tallied at around \$1003 for Christmas 2018. American families were also expected to celebrate a little bit more up to New Year’s Day — January 1, but after that they would have to buckle down on their spending for the next two to three months. American households would try to limit their purchases to daily necessities and to try to pay off debts. It is important to take note of US consumption habits to gain a better understanding of why US trade deficits with China are so difficult to narrow down, even after Washington had started to impose higher tariffs on Chinese imports.

There is no simple solution to boost US exports to China and decrease China’s imports at home. Now let us move forward to China’s seasonal holiday patterns and how that influences family activities. More and more young Chinese families are living in big cities, mainly in the eastern and southern parts of the country where better job opportunities are more readily available for them. The main holiday is around Chinese New Year, also known as the Spring Festival. There is

no set date for this holiday, unlike Christmas which always falls on December 25. The Spring Festival has five full holidays that turn into a full week of celebrations, and occurs around late January or early February in accordance with the Chinese Lunar Calendar. This is not the same as the Gregorian calendar used by Westerners.

The date of Chinese New Year for the years 2017 and 2018 were January 28 and February 16, respectively. Reviewing the US–China trade figures for the two years, we noticed the much higher monthly average numbers for Chinese exports to the US in January for both 2017 and 2018, but lower figures for the next two to three months. What was occurring was that Chinese manufacturers and exporters were rushing out shipments of goods to the US and all over the world before the Spring Festival arrived. During the holiday season, many Chinese families would trek back to their respective rural hometowns to visit elderly relatives. Therefore, Chinese workers would disappear from their places of work in the cities for about a week or two. Nearly all factories and exporters would go on holiday as well, shutting down operations for about two to three weeks at a minimum.

Let us assume you are a US exporter hoping to drive bigger sales in China. Your best bet to generate higher sales revenues would be to aim for higher sales in January, which would mean delivering products to the Chinese market by December the prior year, so logistics networks would place the products on store shelves nationwide by early January at the latest. Although the Chinese also have some awareness of Christmas Day, with a growing percentage of the Chinese celebrating this holiday, they do not celebrate it with the same degree of enthusiasm as Americans do.

The Chinese might purchase small gifts for young children and set up decorations at their apartments, but would do little more since Christmas is not an official work holiday for them. Chinese families will not start to consider spending for the upcoming Spring Festival season until shortly after New Year's Day — January 1. Also, annual bonuses (averaging 1–2 months) are usually paid out in January, which means extra spending money for purchasing gifts for family members, relatives and friends. In most instances, Chinese families would buy

gifts in the cities that they work in and then carry the items to their hometowns.

This explains why photos of people returning to their hometowns show them holding large bags while piling into cars, trains and airplanes. Therefore, US exporters can be best served by focusing on selling their products in Chinese cities rather than expand into rural markets for the time being since delivery to rural communities is much more expensive and residents there have less spending money than their city peers. Selling US-made luxury wristwatches in isolated farm villages would not be feasible or profitable for a US company even if the watches were on sale in the area during the Spring Festival season.

US-based exporters should recognize the unique shopping habits of the Chinese and the importance of the Spring Festival if they wish to succeed here. It is also necessary to understand the Chinese zodiac, so that products can be marketed with a special emphasis on each Chinese astrological year.

Consequently, President Trump alone cannot boost US exports to China just by forcing President Xi to sign a win-win US–China trade and investment agreement. Chinese exporters had first started selling their goods to American markets by conducting in-depth research on US consumer spending habits and recognizing their love for the Christmas season. Chinese manufacturers then focused their energies on setting up factories in the country to march ahead on mass-producing toys, clothes, decorations and all things related to the Christmas holidays. Americans and their passion for buying at a discount made themselves more susceptible to buying Chinese-made goods, not worrying about where the items they purchased were manufactured.

American consumers, including Trump voters and those who had endorsed his “America First” agenda, had unwittingly sparked widening US–China trade deficits that exploded during the last few months of each year. This can be expected in the years ahead although higher tariffs will have an impact on such activities. US exporters would be well-advised that they must do a better job of localizing their marketing efforts if they wish to succeed in China. They should also assign Chinese translation teams to ensure there would be no embarrassing

typos and grammar mistakes in the Chinese (Mandarin) language on their packaging and marketing materials.

Localizing marketing campaigns refers to selling goods to the Chinese that would appeal to their special tastes and value systems. When producing TV commercials, it would be advisable to hire home-grown Chinese actors who can speak the language of their people. Also, if China-born celebrities were to serve as brand ambassadors, they would know how to speak to the local public and provide helpful feedback to US exporters too.

The Spring Festival is the period when Chinese families are the most generous, and also when they have received their bonus money. These bonuses are wired into their bank accounts, which they are often able to access through their smartphones, such as through Alipay, WeChatPay and iPay. Additionally, they will be excited to make purchases in shops and to spend extra on imported goods if they deem the quality better than that of domestic brands. But this requires marketing teams to boost brand awareness among Chinese consumers.

The mistake many US companies made when expanding into China in the past was that they relied on US marketing teams and consultants to perform such tasks for them. That one-size-fits-all strategy doomed many US exporters to experience epic failures as Chinese consumers could feel no real connection to buy these American-made goods. It is human nature to expect the Chinese to buy goods that would demonstrate pride for the Chinese.

When in China, do as the Chinese do. Fortunately, major US-based exporters have gotten smarter and have done a better job to localize their marketing campaigns. However, US–China trade deficits have continued to rise at record-breaking levels in 2018. Despite Trump raising tariffs on Chinese imports, the trade figures look even more alarming than ever before.

Rising US–China Trade Deficits

Many critics of President Trump and defenders of Beijing's trade policies with Washington were quick to rush to judgment against the

White House after the USTR raised tariffs on Chinese imports in March 2018. They had pointed out that Trump's trade actions appeared to have backfired, inflicting more harm than good on the US economy, while US–China trade deficits had grown even larger in the immediate aftermath. Accordingly, that could have caused a few of the ardent supporters of the “America First” agenda to harbor doubts. How could higher tariffs not decrease the total value of imports coming in from China? Outside the realm of politics and international law, a number of factors were at play to explain how China had kept winning in tit-for-tat tariff wars. The US Department of Commerce in conjunction with the Bureau of Economic Analysis (BEA) posted the following US GDP figures.

According to official statistics, US GDP had witnessed year-on-year growth of 4.2% for second quarter 2018, but in the third quarter, the growth rate dropped to 3.5%, hitting 2.6% in the fourth quarter. The nation had annual growth of 2.9% at the end of the year. Did the onset of trade wars have a negative impact on the US economy? That was doubtful as US exports to China had accounted for less than 1% of the total GDP values for the nation. Had Beijing blocked all incoming goods and services from the US for the latter half of 2018, it would not have had a devastating impact on overall US economic figures. The US was not reliant on exports for its domestic economy to succeed, but that was a different story for China. Chinese exporters stood at greater risk of becoming the victims of their own success. Although there seemed to be little likelihood they could boost the shipment of products to the US, that was exactly what had happened in 2018.

Common sense would say that if a nation had enjoyed a huge trade surplus with another nation, the moment the other country imposed higher tariffs on their exports, that would lead to a narrowing of the trade gap between both sides. But instead, the Chinese trade surplus with the US surged to record-setting levels. Washington then blamed Beijing for lowering the value of its currency to keep prices low for American buyers of Chinese-made goods. The numbers showed a sharp hike in the value of the US dollar compared with the yuan starting in April.

The yuan was at its strongest for 2018 on February 7 when it stood at 6.2559 to the US dollar, but was at its weakest point on October 30 at 6.968. The steady drops in yuan valuations began in mid-June right after Trump had announced his second round of tariffs on \$200 billion worth of Chinese imports. During the same period of time, Beijing retaliated by refusing to accept deliveries of US soybeans and liquefied natural gas (LNG) imports, causing the price of soybeans along with oil and gas to drop in global markets. This impact could have led to a significant slowdown in US GDP growth rates.

President Trump was prepared to declare China a “currency manipulator” in response, but the US Treasury had nixed that approach by avoiding this declaration in its annual report to Congress on China trade and currency. Beijing had legitimate reasons to claim they were not engaged in intentional devaluations of its currency. The PBOC, China’s central bank, had taken charge of how the nation’s currency would be valued in foreign exchange markets and were required to follow strict rules to avoid sudden rapid and wide changes in valuations. As cited by *The Balance*, which provides a brief understanding of how the PBOC pegs the yuan to the US dollar, starting on August 11, 2016 the nation’s currency had been pegged to a basket of currencies.

China’s central bank uses a modified version of a traditional fixed exchange rate. That’s different from the floating exchange rate the United States and many other countries use. The People’s Bank of China manages the yuan’s value. It keeps it fixed to a basket of currencies reflecting its trading partners. The basket is weighted toward the dollar since the United States is China’s largest trading partner. It keeps the yuan’s value within a 2 percent range against that currency basket.

On August 11, 2015, the PBOC modified this peg. It uses a “reference rate” that’s equal to the previous day’s yuan closing value. The PBOC wanted the yuan to be more driven by market forces, even if it meant greater market volatility. The International Monetary Fund required the PBOC to make the change. It was necessary before IMF would consider the yuan an official reserve currency.⁷

⁷The Balance, “Dollar to yuan conversion and history”, <https://www.thebalance.com/dollar-to-yuan-conversion-and-history-3306089> (December 12, 2018).

The Chinese yuan had already started dropping in value even before Trump entered the White House, and that was also before anyone had started talking about the potential of US–China trade wars coming into fruition. The new rules had gone into effect in 2016, which were a requirement for China to internationalize its currency and to become part of the IMF’s basket of reserve currencies with special drawing rights (SDRs), along with the US dollar, Euro, British pound and Japanese yen. By becoming more internationalized, the currency would be more readily available for exchange in banks and over currency exchange counters worldwide.

However, even if Chinese exporters made more financial transactions with companies from other countries, they would have to first exchange yuan into US dollars and then convert it into another national currency. For example, if a Chinese company had just purchased raw materials from Mexico, to make the payment they would have to go to a bank, exchange yuan into US dollars and then to Mexican pesos in order to honor the contract, and *vice versa* when a Mexican trading company purchased Chinese imports. This begs the question: Why did all official currency exchanges go through the US dollar? That was on account of SWIFT (Society for Worldwide Interbank Financial Telecommunications), the clearing exchange. When a customer from Shanghai wires Chinese yuan to a Singapore bank, the currency is not immediately converted to Singapore dollars. Instead, the Chinese yuan buys US dollars which then buys Singapore dollars before landing in a Singaporean bank account. With yuan internationalization, we can anticipate the yuan will strengthen in value as more foreign companies swap for yuan. Additionally, China was developing new bank wire technologies that no longer required US dollar exchanges.

CCTV.com has posted a story about the China International Payments System (CIPS), which could serve as a replacement for SWIFT if people doing international bank wires want to exchange Chinese yuan without converting it to US dollars. According to CCTV.com:

The first phase of the China International Payments System (CIPS) was launched in Shanghai on October 8, 2015. And hence forward, businesses

operating in Asia and Europe can wire RMB funds, such as remittances, to bank accounts in China, via CIPS.

Formerly, such transactions were conducted by off-shore bank accounts, primarily in London and Hong Kong, routed through SWIFT (Society for Worldwide Interbank Financial Telecommunication), a network that enables global financial institutions to send and receive information about transactions.

The current global electronic payments system is dominated by US dollars, but CIPS could boost the RMB as a major currency powerhouse. The new clearing system is expected to lower transaction fees for those doing business outside China and trying to bank wire RMB funds into the country.⁸

Consequently, President Trump had no hard evidence that Beijing was intentionally devaluing its currency, which explained why when he made the threat to do so, he had no choice but to back down. By “seeking the truth from facts”, the US Treasury had drawn the conclusion that China’s yuan valuations were based on external forces beyond Beijing’s control. Other major variables in play had also prevented US–China trade deficits from narrowing down in 2018. For instance, China has an intricate supply chain system in place.

When a company opens a factory, it is never as simple as hiring workers and setting up production lines. Factories must order materials and supplies from outside, set up customers’ orders and deliver the goods to buyers, while the logistics networks are all part of the supply chain networks. That means recruiting drivers to deliver goods either to shops in their national markets or sending the goods abroad. To be exported, the goods must be delivered to the ports and middlemen hired to handle the paperwork to clear the items through Customs before they can then be transported overseas. Up until the shipments from China reach US ports and Customs, the supply chains are mainly connected to Chinese businesses, which also explains why Chinese-made goods are usually cheaper

⁸CCTV, “China breakthroughs: new international payments systems goes into action”, <http://english.cctv.com/2017/10/19/ARTIXz5AbEqSewRu8jDIFRKO171019.shtml> (October 19, 2017).

than American products, despite the country of origin being located so far away from American consumers.

Many Chinese factories had opened either in rural regions where the land was cheap or connected to China's SEZs where they received preferential tax treatments and government support. Factory bosses also paid much lower wages to laborers on production lines, truck drivers and those shipping the goods overseas than their equivalents in the US. In the US, American labor unions held strong powers in many states, so that if a business person opened a factory in Illinois they could be mandated to hire only local workers. And since members of a labor union were able to engage in collective bargaining on employees' contracts, factory bosses would have to pay higher wages or face the risks of labor strikes or forced work shutdowns.

Meanwhile, Chinese factories did not have to worry about such matters, since labor unions were reluctant to force strikes when negotiating contracts on behalf of its members. In order to start making a dent in US–China trade deficits, the US manufacturing sector should address the high costs of operations, tax rates, labor wages, land prices, and build up deeper links in domestic supply chains. As the saying goes, “If you build it, he (they) will come.” This slogan best explains the amazing success story of China's supply chain networks.

China just keeps building up infrastructure and logistics networks. That was a major reason why it could continue to enjoy huge trade surpluses with the US despite Trump raising tariffs on Chinese imports. US manufacturers hoping to boost exports to China must beat the Chinese at their own game — by building up their own supply chains even at the risk of paying higher logistics and operational costs. From a purely economic perspective, there is just no other way around that.

Nevertheless, Trump will never sign a US–China trade agreement with Xi unless Beijing shows sincere efforts to narrow down trade imbalances. Even if the US manufacturing sector and America's Big Business companies are to blame for the high costs of running US-based factories while other US companies open factories in China, President Trump makes it clear that he wants to see fair and balanced trade between the two nations. Perhaps the Chinese government does intend

to order domestic companies and government agencies to make bulk purchases of US imports such as requiring the state-owned airlines carrier, China Air, to order more passenger jets from Boeing, but such actions are only short-term fixes. The US must strengthen its domestic supply chain networks or its manufacturing sector will keep declining in the medium to long term.

Should Chinese exporters continue to rely on their success in the US markets in order to stay prosperous? Perhaps 10 or 20 years ago, the answer would have been a resounding “yes”. But Beijing has realized after entering the WTO that Chinese companies must have a “Go Global” outlook which means expanding the marketing and selling of Chinese-made goods and services to worldwide markets. Selling to American customers will no longer be sufficient, and Chinese companies should explore the markets in Europe, the Middle East, Asia, Africa, North and South America, and Oceania. The US–China trade wars have placed Beijing in a position to look elsewhere for foreign trade and investment deals. Accordingly, Beijing has already set up an action plan for that.

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Chapter 6

China Goes Global

Asian countries are just like a cluster of bright lanterns. Only when we link them together, can we light up the night sky in our continent.

Chinese President Xi Jinping.

I'm not angry at China. I'm not angry at Mexico. I'm not angry at India or Vietnam, which is hot as a pistol right now, taking a lot of stuff away from us. I am upset with our leaders for being so stupid.

Donald J. Trump, campaign speech for US President 2016.

Globalization obviously has the potential to be good. That doesn't mean it's good for everybody. There's a very large number of people in India and China who benefited directly from globalization, but it doesn't mean everybody in America benefits from globalization.

Sir Angus Deaton, Nobel prize-winner of Economics, British-American professor of Business-Economics, University of Princeton.

Regional Comprehensive Economic Cooperation (RCEP)

A temporary US–China truce in the trade war was accepted by US President Trump and Chinese President Xi when they met for dinner at the G20 Leader's Summit in Buenos Aires, Argentina on December 1, 2018. The two sides reached an agreement that neither side would continue to raise tariffs on each other for a 90-day time-frame, while China would grant other concessions to Washington by reopening the Chinese markets in regard to delivery of US agricultural products and

LNG shipments from the US. Accordingly, Beijing pledged to make sincere efforts to narrow US–China trade imbalances starting in the early months of 2019.

The agreement was looked upon as good news, since stock markets indexes worldwide surged in the immediate days after the big announcement. Nevertheless, China stood well prepared to deal with bilateral trade tensions and had already developed alternative plans should a person such as Trump take charge of the White House. A few years earlier, Beijing had shown the understanding that relying on Chinese companies exporting goods to the US, even when Obama was still President, would not guarantee long-term success for the nation's economy. Chinese officials had anticipated that one day in the future, American voters would elect a President with an “America First” agenda and he would demand an end to unfair US–China trade deals.

Consequently in 2012–2013, Beijing announced grand strategies for new global initiatives, such as the RCEP (Regional Comprehensive Economic Partnership), BRI (Belt and Road Initiative), much deeper support for the UN's South–South Cooperation and expansion of China's high-speed railways networks, China's “railways diplomacy”.

The top priority for Beijing when promoting stronger cross-border trade and investment ties had routinely been with countries on the Asian continent, since they were neighbors and shared much history along with the ups and downs in their respective regional relations. The Chinese government had launched negotiations of RCEP, a regional free trade pact, in 2012, which included all 10 member states of the Association of Southeast Asian Nations (ASEAN), plus five other countries. The 10 ASEAN countries are Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, the Philippines, Laos and Vietnam; the other five countries are India, Japan, South Korea, Australia and New Zealand. These members united to emerge as an ambitious trading group. If formally signed by all participating nations, the RECP would account for around 45% of the world's population and one-third of cumulative total worldwide GDP.

President Trump, fulfilling an earlier campaign promise, had withdrawn Washington from a regional trade pact, called the Trans-Pacific Partnership (TPP) which had included all the nations listed in RCEP other than China under its auspices, while RCEP did not have the US

as a signatory member. Although the TPP has been renamed Comprehensive and Progressive TPP (CPTPP), for all intents and purposes, it should be considered defunct without US involvement. The RCEP, still under negotiations after six years of consultations and nearly 25 formal rounds of discussions, has yet to be realized as a formally recognized trade treaty, but hope springs eternal and it still could become a reality in 2019. Accordingly, China has a golden opportunity to take a leadership role in global trends and in Asia.

Beijing stands ready to replace Washington as having the greatest diplomatic influence and to embark on economic cooperation pacts with Asia and Oceania. As a popular saying in China goes, “crisis is an opportunity riding the dangerous wind.” China knows that blazing a trail of mutual cooperation with Asian countries would benefit not only Beijing but also its neighbors.

President Xi delivered a keynote address at the Boao Forum for Asia Annual Conference on April 7, 2013 in Sanya City, Hainan Province. Citing a Chinese proverb, “Neighbors wish each other well just as loved ones do each other,” he urged Asian countries to “contribute more to prosperity and development in both Asia and the world.” He pointed out that “China’s trade with its neighbors had grown from US\$100 billion-worth to US\$1.3 trillion, making China, the largest trading partner, the biggest exporter market and a major source of investment for many of these countries.” Xi said:

China’s interests have never been so closely connected with those of the rest of Asia and the world as a whole in both scope and depth. Going forward, China will maintain its robust growth momentum. Its domestic demand, particularly consumption-driven demand, will continue to grow, and its outbound investment will increase substantially. It is projected that in the next five years (as of April 2013), China’s imports will reach some US\$10 trillion-worth, and its outbound investment will reach US\$500 billion-worth. In addition, over 400 million outbound trips will be made by Chinese tourists.

The faster China grows, the more development opportunities it will create for the rest of Asia and the world.¹

¹Jinping Xi, *The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 365–366.

RCEP can serve as an alternate trade pact to the TPP, and Beijing has also launched negotiations for other bilateral and multi-party free trade agreements in the meantime. It has already signed bilateral FTAs with South Korea, Australia and New Zealand in recent years. There were further talks in the hopes of signing a trilateral trade agreement with Japan and South Korea, while bright prospects are on the horizon for an FTA with India, and much progress has been made on further economic cooperation with ASEAN member states. RCEP may ensure greater access to free trade and a rules-based commerce system for the region. Japanese Prime Minister Shinzo Abe had touted it when agreeing to accelerate RCEP negotiations in July 2018, while reaffirming such notions when he met Xi in Beijing for talks in September 2018.

Tokyo has also been hit hard by higher tariffs on its steel and aluminum exports to the US. On July 1, 2018, during another round of RCEP negotiations, a joint statement was issued stating, “in view of the current global trade environment, which faces serious risks from unilateral trade actions and reactions, as well as their debilitating implications on the multilateral trading systems,”² such reasons had given a greater urgency for participating countries to sign off on a RCEP agreement in the near future.

Nonetheless, RCEP talks have been delayed and have often ended up in a quagmire after each session, with the original deadline for the agreement, originally set for November 2016, ignored and long-forgotten. Another deadline goal was set for November 2018, but India refused to accept the terms, which resulted in another time-frame on an agreement set for early 2019, but few expect a successful conclusion even then. Consequently, based on stalled RCEP talks, President Xi had added momentum to agree to a trade wars truce with Trump when they met at the 2018 G20 Summit. Making a temporary truce deal with Trump had proven to be much easier than getting all RCEP members to come to an agreement.

²Japan’s Ministry of Economy, Trade and Industry, “RCEP participating countries releases a joint media statement of the Fifth Intersessional Ministerial Meeting”, http://www.meti.go.jp/english/press/2018/0701_001.html (July 1, 2018).

The initial RCEP negotiations were launched in November 2012 with the expectation that it would cover goods, services, investments, and economic and technology cooperation, while addressing competition and IPR protection, according to the website *China Briefing*. Beijing had made the decision to avoid taking charge of the negotiations, while all member states, big or small, had equal standing at the negotiations table. Therefore, the small country of Brunei would hold equal powers to Japan when fighting over trade and investment concerns. Each nation had a different set of priorities and challenges when approaching an RCEP agreement. For example, smaller developing nations sought to attract more FDI inflows from bigger companies, but they were not so keen on protecting IPR and patent rights since that would result in higher prices for goods, food products and drugs in their respective countries.

Poor families living in Cambodia could only afford to pay for lifesaving generic medicines, but if patents were enforced, Japanese and South Korean pharmaceutical companies could forbid the sale of generics to the public. Additionally, India had little incentive to join RCEP since its domestic manufacturing sector was labor-intensive with poor technology, but had ensured stability in India's overall employment conditions. RCEP would result in even larger trade deficits with China. For the fiscal year 2017–2018, India's trade deficit with China was \$63.12 billion compared to the prior fiscal year deficit of \$51.11 billion. Yet, India's high-tech services companies stood well poised to benefit from RCEP. Hence, India had no intention of walking out on talks, but would stay around to see if they could negotiate a better deal. India's manufacturers were just not competitive compared with their Chinese peers since they had not plugged into global supply chains as well, according to the *Economic Times*.

US–China trade tensions in 2018 had directly impacted the economies of Southeast Asia. As reported by the *Malaysian Reserve*, the IMF growth forecast for ASEAN+5 (ASEAN plus India, Japan, South Korea, Australia and New Zealand) was 5.3% for 2018 and lower at 5.2% for 2019. In August 2018, Malaysia had reported its lowest trade surplus since October 2014, at RM1.6 billion. Although RCEP

negotiating partners had all expressed a strong desire to sign a deal as soon as possible, as of August 2018, nearly six years after formal talks had started, only four out of 20 chapters of the RCEP bargaining framework had been resolved by all members.

The documents had never been released to the public in a transparent manner, while the trade bloc has continued to face stiff resistance from trade unions, civil society and indigenous ethnic groups, particularly from poorer developing nations. Major issues still under discussion without agreements include matters of generic medicines, mining profits remaining in countries of origin, and privatization of key sectors, including water supply, energy, transportation and telecommunications, while there are huge wealth gaps between the poorer members of RCEP and wealthier ones. China is the world's second-largest economy, while Australia has the highest per capita GDP at \$55,000, while Cambodia, the poorest member, has per capita GDP at \$1,300. Myanmar, Laos and Vietnam have similar levels of poverty per capita.

The RCEP was also expected to resolve environmental concerns. Oftentimes, corporations from richer nations open new factories in the emerging markets since they can hire labor at lower wages and enjoy lower operational costs, but the factories tend to be higher-polluting, placing local communities in danger of health risks. It is not uncommon for cancer rates to surge in regions where more factories are operating. The temptation to cut costs usually leads companies to cut corners on labor and environmental protections.

The RCEP seeks to strengthen regulations and enforcement for workers, and prevent dangerous pollution from spreading throughout the region. But such actions are too costly for poorer nations since they can only attract more FDI by suggesting to local officials that they should overlook the stringent business regulations that are expected to be enforced on the companies investing there. Therefore, there are good explanations for why RCEP negotiations are unlikely to conclude even before 2020, despite the overwhelming optimism demonstrated by those member states directly involved in talks. More coordination is necessary if all parties wish to overcome the challenges of stalled talks. Yet, China can still approach it in one of two ways — Beijing could

cancel RCEP and then push ahead on separate bilateral FTA talks with all members, or continue to march ahead with the RCEP under its original framework.

Apparently, Beijing has decided to continue to endorse RCEP negotiations, but China has also engaged in more bilateral deal-making. The RCEP may be successful, but with so many different sovereign governments involved in the talks, each party has their own unique agenda for agreeing to participate and also unique reasons to create barriers. Perhaps RCEP was doomed from the beginning and Beijing has already recognized that, but is still seeking to make an attempt to show good faith in repairing its relations with its Asian neighbors for the long-term future.

Belt and Road Initiative (BRI)

Beijing had good reason to launch RCEP, but if it was destined to fail, the Chinese government had to find other approaches to help Chinese companies expand overseas. The BRI appeared to be a smart move at its inception. President Xi introduced it to the world in his speech, “Work Together to Build the Silk Road Economic Belt,” at Nazarbayev University Astana, Kazakhstan on September 7, 2013. He highlighted how Zhang Qian, a Chinese envoy, twice visited Central Asia on peace and friendship missions by traveling along China’s Ancient Silk Road during the Han Dynasty (206 BC–220 AD). The ancient Silk Road started from Xi’an, Shaanxi Province, in western China and connected to trade routes that led to the Persian Empire, Arab states, Central Asia and as far as the sea ports of Venice, Italy on the Mediterranean. Beijing wished to revive the spirit of the ancient Silk Road by opening its doors to the world to boost trade and investments for Chinese citizens and foreigners alike hoping to do business.

The contemporary version is called the “Silk Road Economic Belt and Maritime Silk Road,” in which the “Belt” covers inland routes while the “Road” signifies shipping routes for China’s for cross-border trade with participating members. As of the end of 2018, the initiative included 71 countries from the continents of Asia, Africa and Europe.

The objective was for China to cooperate on joint projects with other countries in order to build mega infrastructure projects that would open economic corridors, build more roads, bridges, railways, power plants, airports, transmission grids, and upgrade shipping ports for smoother and more efficient delivery of goods overseas. Xi had elaborated further on his understanding of the “Silk Road Spirit” at a speech he delivered at the opening ceremony of the China-Arab State Cooperation Forum on June 5, 2014. He said:

To develop the Belt and Road Initiative, the two sides need to follow the principles of discussion, joint development, and sharing of benefits. “Discussion” requires that we pool collective wisdom and carry out relevant initiatives through negotiations, so that the interests and concerns of both sides are reflected. “Joint development” requires that we give full play to the strengths and potential of both sides, so that a combination of efforts will lead to sustained progress. As the saying goes, “A tower can be built one stone at a time; a pool can be formed from single drops of water”. So we must persist in doing so. “Sharing of benefits” requires that both people benefit equally from the fruits of development, with a view to joining China and the Arab States even more closely through our shared interests and destiny.³

Even during the early stages, Xi hinted about the challenges the initiative would face and how success might be achieved with “joint development.” His phrase “so we must persist in doing so,” served as ample warning that no matter how daunting the conflicts that lay ahead, the Chinese government would stand steadfast in striving for development of the BRI with ambitious goals that were already set. *Investopedia* provided some background: the land-based Silk Road Economic Belt was expected to connect China with cross-border trade and investment ties to Central Asia, Eastern Europe and Western Europe, while the sea-based 21st Century Maritime Silk Road would connect southern coastal China to the Mediterranean Sea, Indian Ocean, Pacific Ocean, Arabian Peninsula, Malacca Straits, Bay of Bengal, and Gulf of Hormuz. The six economic corridors were listed as

³Jinping Xi, *Xi Jinping: The Governance of China, Vol. 1* (Shanghai, China: Shanghai Press, 2015), 348.

follows: New Eurasia Land Ridge (connecting western China with western Russia); China–Mongolia–Russia Corridor (connecting northern China with eastern Russia and Mongolia); China–Central Asia–West Asia Corridor (connecting western China with Turkey via west and Central Asia); Indochina Peninsula Corridor (connecting south China with Singapore); China–Pakistan Economic Corridor (CPEC); China–Myanmar–India Corridor (connecting southern China with India via Bangladesh and Myanmar).

The BRI could be viewed as China’s economic diplomacy effort to establish closer diplomatic ties and economic cooperation with nations from its regional sphere. Many poor developing nations would like to boost their respective manufacturing sectors by opening more factories, but businesses from their local communities lack adequate capital and struggle with power shortages. They do not have reliable paved roads and logistics networks to deliver goods outside their surrounding towns. China hopes to work with local governments in the poorer nations to offer financing from the Asian Infrastructure Investment Bank (AIIB) to provide soft loans at low interest rates for the companies that agree to embark on the construction of such projects.

For instance, the Shanghai Electric Group has signed contracts with BRI member states to build more coal power plants, adding 6,285 megawatts (MW); China Engineering Group has contracted to build plants which could produce 2,200 MW. It is believed that a typical coal power plant will provide 500 MW per year using over 1.4 million tons of coal and provide power to over 300,000 households. Numerous environmental activists had raised alarm bells over Chinese companies constructing more coal power plants overseas, but many poor people cannot afford more expensive alternative energy sources to light their homes, shops and workplaces. Coal is still the cheapest and most reliable source of electricity for the transmission grid.

Nonetheless, Beijing has made efforts to placate criticisms from environmentalists by promoting the so-called “Green Belt and Road Initiative” and has broken ground on opening new solar and wind farms while moving forward on other projects in hydropower, and

nuclear and thermal energy. African countries and emerging markets elsewhere need to be able to tap into a greater power supply connected to transmission grids to keep factories, shops, office building running without unexpected interruptions. By doing so, they will be able to keep factories running day and night with shifts of workers to stand at production lines 24 hours each and every day of the year. Mass production requires a reliable power supply, strong workforce, good roads and logistics networks.

Besides, the late Chinese leader, Deng Xiaoping, had worked miracles by launching SEZs, and Beijing hopes to work the same magic all over again with the BRI. Total costs on BRI infrastructure projects are estimated at around \$1 trillion, but when going ahead on construction, we can expect the costs to rise much higher since there will be inevitable delays, some groups might try to halt or sabotage the projects, local governments that were recognized as corrupt are likely to request more bribes, and natural disasters could impact the construction of some projects.

Local governments could hamper projects by demanding strict enforcement of regulations and quality, while only allowing companies to sign procurement agreements and hire workers locally. Such demands are common among EU member states and this explains why Chinese companies have signed up only a few BRI projects from western European countries. One of these is Italy — Rome signed an MOU for the BRI when President Xi paid a state visit to the country in March 2019. Meanwhile, countries in Central and Eastern Europe have shown greater flexibility in their dealings with the Chinese government and companies, and some BRI projects are currently in the works, such as the Budapest to Belgrade high-speed railway link that is estimated to cost \$1.1 billion.

Some critics of BRI have pointed out that when joint projects are signed, Chinese companies will receive preferential treatment in the bidding process for construction contracts, alongside getting more favorable tax rates and leasing agreements. China was addressing its over-capacity of steel production by insisting that “Made in China” steel would be used to construct infrastructure. China was also

upgrading the deep-water port in Gwadar, Pakistan as of the end of 2018, and the Pakistani business community would still have local access to the port while this was under way, making it cheaper and more efficient for them to ship deliveries overseas. The BRI should not be viewed as a charity initiative. In other words, the Chinese government and its companies are hoping for a return on their investments. If generous loans went into default on related projects, the hardest hit would not be other countries but China since they had poured so much funding into projects that failed to produce profits for them. They would have huge sunk costs to absorb.

Therefore, the notion that Beijing had hoped to secure “debt traps” by promoting BRI in Africa and the emerging markets does not make much sense either. China would gain very little by forcing smaller and poorer nations into bankruptcies. The BRI can only succeed if the projects turn a profit for all parties involved, but it could take decades, not just a few years, before some projects become fully operational and generate substantial revenues.

As of July 30, 2018, according to the *Guardian* newspaper, China had already invested over \$210 billion, mainly in Asia, with Chinese companies securing over \$340 billion in construction contracts, and that is just the beginning. The World Bank has published reports claiming that countries in Asia need to spend from \$1.7 trillion to \$2.5 trillion on much-needed infrastructure investments. The AIIB held over \$100 billion in capital, while the Silk Road Fund was valued at \$40 billion. While other countries merely talk about wanting to help poor nations to build more basic infrastructure, the Chinese government was making good on its promises to help other developing nations to industrialize their markets through BRI.

Ironically, many nations that are rich in natural resources, for example, Myanmar, have not entered the industrial age. Hence, Myanmar businesses will benefit greatly from the BRI. Meanwhile, around half of all global shipping trade sails through the Indian Ocean, while the top 10 busiest container ports can be found either in the Pacific or Indian Oceans. Starting from 1970, the Indian Ocean’s commercial shipping has increased four-fold with over 9.84 tons of products transported

annually. But South Asia is considered one of the least integrated regions in the world according to a report by Washington-based think tank, Center for Strategic and International Studies.

It is twice as expensive to ship containers from ports in South Asia than from East Asia, due to deep water ports not having been upgraded to accommodate larger commercial and military ships. Accordingly, the Chinese government, working in close conjunction with the BRI, has agreed to either buy or invest in nine overseas shipping ports in the first half of 2017. Five of these are located on the Indian Ocean coasts of South Asia. The BRI remains largely successful and participants had good reason to celebrate its 5th anniversary at the BRI Forum in Beijing on May 14–15, 2017 when Xi had delivered the keynote address:

In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries and achieve economic integration and interconnected development and deliver benefits to all.⁴

To understand who really is in charge of the BRI, look no further than China's National Development and Reform Commission (NDRC), the government agency assigned to draw up the blueprint and to formalize policies and goals for the BRI. The Chinese Development Bank and the Export-Import Bank of China are also working closely with the AIIB. The end goals are to ensure yuan internationalization to increase the nation's currency usage worldwide, and to decrease logistics costs for participating member states in the long run.

Southeast Asia has been marked to be a crucial hub for BRI projects since higher labor and land costs in China have caused many Chinese manufacturers to close down factories at home and start up new production lines and increase supply chains in Southeast and South Asia. This is crucial for China's long-term sustainable development strategy. Meanwhile, many Chinese companies are looking further than Asia to

⁴Jinping Xi, *Xi Jinping: The Governance of China, Vol. II* (Shanghai, China: Shanghai Press, 2017), 553.

expand production overseas. They see Africa and even South America as the next new lands of opportunity for them.

China and South-South Cooperation

The UN Development Program (UNDP) set forth an ambitious agenda and goals at the turn of the 21st century: to boost sustainable development and international trade investments while aiming to eradicate poverty in the southern hemisphere continents of Africa and South Africa. According to the UN Office for South-South Cooperation (UNOSSC), the UN as a governing body agency has sought to arrange for cooperation among the nations in the southern hemisphere on matters of politics, economics, culture, ecology, science and high technologies. By doing so, they can share knowledge, skills, expertise and resources to meet the developmental goals of each nation in the region. By jump-starting higher levels of cross-border trade, FDI inflows, and regional integration while supporting shared solutions and tech-transfers, the developing nations can reach the lofty targets set by the UN's 2030 Agenda for Sustainable Development.

The South-South countries are expected to be guided by the principles of showing deeper respect for national sovereignty, national ownership, and independence, alongside endorsing equality, as well as non-interference of domestic affairs. They praise the mantra of mutual benefits. In 2010, Beijing and the UNDP signed an accord to strengthen ties in relation to South-South Cooperation as the Chinese government had pledged to play a more crucial role in developing strategies for solutions to expand the economies of the nations in the southern hemisphere.

In May 2016, President Xi pledged to open two new Chinese funds that totaled \$5.1 billion in value that would directly benefit the region by tackling climate change and address sustainable development challenges: a \$3.1 billion South-South Climate Cooperation Fund and a \$2 billion South-South Cooperation group. It was also reported that, in the continent of Africa alone, the Chinese government had poured over \$124 billion of investments from 2000 to 2018. Hence, the

Chinese were hoping to cash in on the enormous potential of the emerging markets in both Africa and South America.

President Xi had made a series of state visits to countries in Africa and South America during his first five-year term in office (2013–2018), while continuing with friendly ties and shared collaboration in the region during his second term in office as leader of the nation. Xi had spoken extensively about helping African countries to march forward on development hand-in-hand with Beijing as they had embarked on a golden era of peace and prosperity together. Xi gave a speech at the Julius Nyerere International Convention Center in Dar es Salaam, Tanzania, standing in front of a huge crowd, and spoke of his endearing friendship with the then Tanzanian President Jakaya Mrisho Kiwete. He is quoted as saying:

When I visit Africa, I am always struck by two things. One is its continuous progress. Each time I come to Africa, I am deeply impressed by new progress. In development, which is most encouraging. The other is the warmth of the African people. The goodwill of the African people is as warm and unforgettable as the sunshine in Africa.

As an African saying goes, “A river runs deep because of its source”. The friendly exchanges between China and Africa date back a long time ... the Chinese and African peoples have supported and cooperated with each other in our respective endeavors to fight against colonialism and independence and liberation, and in pursuit of development and national renewal. A fraternal bond of shared future has been forged between us.⁵

The continents of Africa and South America share similar histories and political backgrounds. The lands are rich in natural resources with good climates to raise crops and livestock. However, due to prevailing corruption in the sovereign governments of many nations on the two continents, many people living there have long struggled in dire impoverished conditions. A small percentage of wealthy families in the South-South regions have amassed huge land holdings and have monopolies

⁵Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 340.

over the business sectors they control, while the masses remain largely in poverty as the middle class has been nearly non-existent for much of the continents' histories. Before China's arrival as an investor and deal-maker in the two continents, the US and Western governments had played large roles in regional development there. But Western leaders had treated Latin-Americans and Africans more like charity cases rather than as business partners. Western companies were happy to extract large quantities of mineral resources along with oil and gas from their lands, but they had failed to help those nations make progress with industrialization.

Western colonialism was marginalized after African and South American countries fought for and won their independence as separate and sovereign states. Although Western powers had a hard time relinquishing control of the lands, they understood that perceptions of tyranny and racism would not endear them to the South-South region. Hence, Western governments tried a new method to control Africans and Latin-Americans by seizing their natural resource assets while offering huge government aid packages and encouraging non-governmental agencies (NGOs) to provide charity when natural disasters struck. Additionally, Western aid was very generous in opening up new schools, hospitals and other vital social services that poor countries could not build since they lacked sufficient local government funding.

However, dispensing so much charity and assistance resulted in cases of dependence, in which the people who had received the aid become very reliant on it and lost interest in lifting themselves out of poverty by hard work and taking responsibility for themselves. Hundreds of millions of impoverished people had cared more about receiving donations than getting a better education and learning new job skills to enable them to escape the vicious poverty cycle. One of the most famous ancient Chinese proverbs is "give a man a fish, you feed him for a day, but teach the man to fish and you feed him for a lifetime."

Accordingly, the Chinese government, when choosing to work with the UNDP on South-South Cooperation, did not view Africans and South American as beggars, but was willing to grant them opportunities to become business partners. If they acted with honesty and fairness,

they could share in the profits and rewards, but if they defaulted, the Chinese companies would seek a return on their investments in one way or another. Critics of the new Chinese policy called it “debt-trap diplomacy,” which was defined by the *Global Times*, as “offer cheap infrastructure loans, (but) taking over strategic assets if countries default (on) payments.” Experts and economists can make the case that “debt-trap diplomacy” could cause devastation to bankrupt economies, but these same nations had fallen into a trap already. They could not receive loans from the World Bank and Western banks due to having shaky credit histories, but if they did not build infrastructure such as more roads and bridges, then their countries would remain mired in poverty despite their abundance of natural resources, crops and livestock.

Based on the climate and good terrain, many countries in Africa, particularly Zimbabwe, Kenya, Nigeria, Rwanda, Tanzania, Uganda, South Africa, Botswana, Madagascar, Mozambique and many others, have strong ties with China. They have endeavored to work together with Chinese agriculture experts to boost crops and livestock production while tapping into new farming techniques and equipment in order to ensure that they can attain sufficient food security for themselves.

It is ironic that China, with the world’s largest population, has been able to maintain the nation’s food supply and keep the prices of food-stuffs low and stable for Chinese consumers even though hundreds of millions of Chinese migrants had fled from their farmlands and rural hometowns to live and work in the cities.

However, in Africa, the continent’s agriculture sector is still largely undeveloped, generating low yields at harvest time, which means many Africans go hungry despite having such fertile conditions for farming and raising livestock. Considering the circumstances, Africa should have become a major exporter of agricultural goods to China, but that can only be achieved if Africans learn the right skills for greater success on their farms and ranches. China Agriculture University has already played a leading role in helping African farmers and ranchers. The campus based in Beijing has granted scholarships to African students to study more about agricultural techniques, develop new equipment,

undergo training, conduct scientific research, build value chains and tap into e-commerce platforms for generating bigger revenue streams from their crops and livestock.

By learning more about the science of agriculture, African scholarship students can return home to help their local communities become much more prosperous, while Chinese companies can benefit from the shared prosperity. China Agriculture University, according to China.org, sponsored the forum “Global Thinkers Dialogue: China’s South-South Cooperation in Agriculture,” which was held in Beijing in September 2018 and helped to link the BRI with further agricultural cooperation in coordination with the China Institute for South-South Cooperation. The chair of the forum was Sun Qixin, President of China Agriculture University.

Supporting more agricultural production and building infrastructure in the South would require more formal diplomatic cooperation, and as such, Beijing had championed two key initiatives: the Forum on China-Africa Cooperation (FOCAC) and Community of Latin-America and Caribbean States (CELAC). FOCAC was first launched at the mutual request of African leaders and the Chinese government in 2000 and they have held summits with African heads of state and Chinese leadership once every three years in efforts to “strengthen solidarity and cooperation” as reported by the *People’s Daily*. Additionally, sub-forums have been held to address mutual issues of vital concern in reference to industry, agriculture, law, education, culture, and arts.

Efforts are underway to coalesce the Chinese dream with the African dream while supporting the African Union Agenda 2063 that seeks to achieve the industrialization and modernization of the entire sub-Saharan continent, while Beijing is coordinating with CELAC to take similar actions in the Latin-American region. Many Africans, perhaps more so than Latin-Americans, have expressed much gratitude for China’s efforts to make their continent richer and more powerful. In the southern Chinese city, Guangzhou, there is a large and vibrant community of Africans called “Little Africa”. They had mainly migrated to the city’s Xiatangxi District to set up shops, restaurants

and businesses, all owned by Africans, to pursue the Chinese Dream in their new homeland.

There have been plenty of success stories, even among African-Americans, who have helped Africans in China to expand their businesses overseas. For example, Hu John, founder and CEO of Black X, based in Shanghai, hails from Los Angeles and travels all over the country to promote black culture by supporting African fashion designers in endeavors to sell their labels and clothing lines in China. Hu John has launched African Fashion Show International to connect buyers, global media and general public with African designers in the hopes of making African fashion trends more popular among young Chinese consumers.

Such activities explain the explosive growth rates of China-Africa trade which has surged to over \$170 billion in 2017, with China's exports to Africa valued at \$94.74 billion and African imports to China hitting \$75.26 billion, a 32.8% year-on-year increase from 2016. And with further rapid industrialization in Africa, that could result in China having trade deficits with Africa in a few years. That will still be good news for Chinese exporters and manufacturers as they can expand business operations in Africa by opening up more factories in the continent while expanding value chains there. Hence, Beijing has ushered in a new age in which, if US-China trade takes a nosedive, Chinese companies stand well-prepared to target consumers in Africa and Latin America where the populations will continue to rise, alongside youthful demographics and a growing middle class with higher disposable incomes. Plus, they can expect to see more Africans and South Americans spending more on Chinese merchandise as they become much more successful in their professional careers through improved livelihoods.

Nevertheless, China's deepening of South-South cooperation will not meet its full expectations until at least another few decades on. In the meantime, Beijing has expanded its railways networks overseas. Accordingly, new rail lines will boost development for the emerging markets in Africa and South America, while helping China to harness stronger geopolitical ties with the world at large.

China's Railways Diplomacy

China started to run its first high-speed rail (HSR) line between Beijing and Tianjin since 10 years ago. The HSR traveled at speeds higher than 300 km/hr and the trip's duration took just 35 minutes. In the years ahead, the state-owned China Railways (CR) made tremendous progress in building extensive HSR connecting 80% of the cities nationwide, while also constructing new lines all over the world. As of September 2018, according to *Travel China Guide*, China Railways tracks cover 77,000 miles in China alone, with plans to construct rail networks totaling 93,000 miles in length by 2020. Passenger rides on China's HSR is forecast to surpass 3 billion in 2019, with ticket sales expected to rise over 10% on average per year. CR was founded in 2007 and is responsible for purchasing the land, building new tracks, installing upgrades, and handling maintenance along with running the trains and ticket sales. *Forbes* has listed its market capitalization at \$25.3 billion.

Li Changjin serves as CR's CEO. CR is a huge company and has 283,637 employees as of June 2018, and generated over \$106 billion in ticket sales and construction contracts in 2017. It is recognized as a global leader in the railroads industry, even garnering higher status than German, Japanese and French HSR. Additionally, CR did not just focus on HSR for passengers alone but had pushed ahead to boost more lines for the rail freight transport sector, going at faster speeds and being more efficient when making deliveries than ever before, making it cheaper than air freight. New rail technologies have resulted in faster trains that can carry larger loads while experiencing fewer technical glitches when running such lines.

China has built huge and extensive rail freight lines that benefit from economies of scale, while making it cheaper and quicker for manufacturers to deliver their goods to many parts of the world. A Chinese exporter based in Yiwu, eastern China's Zhejiang province, can now drop off its products for delivery at the local rail freight depot which will despatch them on a line that had extends all the way to London, taking only about two weeks to reach its final destination.

This is now possible because CR has introduced new advances and signed off on Customs and inspections cooperation with countries in Central Asia and Europe. In the past, the same delivery would have taken more than 36 days in duration.

Additionally, many Chinese firms had begun to rely on robotics, not human laborers, to manufacture goods and deliver them to railroads for export. For example, rail freight originating from Yiwu Railway Station in Zhejiang Province can take a direct route all the way to Madrid, Spain, halving delivery time from 14 days to seven days.

In prior times, rail freight from China to western European countries would have to switch railway networks when crossing borders. This slowed down times because cargo had to be unloaded and then reloaded onto new freight trains. In addition, rail lines in Central Asia had suffered from poor maintenance, causing numerous unscheduled delays due to the rapidly changing weather conditions, such as droughts, extreme heat, dust storms, and flash floods that were frequent in Central Asia in the summer and winter. Trains had to run through blustery cold, windy weather, and blizzards, and faced similar weather conditions in many European countries as well.

CR opened up a top-of-the-line research center to construct trains and rail lines that could continue running even in the harshest and most extreme weather conditions, and also construct lines in the most difficult of terrains, such as mountains, deserts, swamps, jungles, and rocky climbs. The amazing achievements of CR in constructing rail lines through the Tibetan Plateau, Gobi Desert, forests of southwest Sichuan province, and jungles of Fujian province resulted in many counties entering into negotiations with CR to consider signing contracts with them to build or upgrade their respective rail networks.

President Xi and Russian President Putin signed an MOU on June 2017 at the Fourth China-Russian Expo in Harbin, China to build a HSR line running between Beijing and Moscow valued at \$2.5 billion, as well as another 200 km line running between Russia's third-largest city, Yekaterinburg, and Chelyabinks. In addition, a number of other rail lines in Africa, including the Mombassa–Nairobi Railway had already been completed in May 2017 and a long list of railway projects

were still under construction worldwide, such as in Argentina, Laos, Myanmar, Indonesia, Mongolia, North Korea, Vietnam, Ethiopia, Nepal, Mozambique, Zimbabwe, Zambia, South Africa, Botswana and elsewhere.

The CR success story has led to a deepening of diplomatic and economic cooperation ties with many nations across the globe. The appointed global ambassador of CR was not the company's CEO, but Premier Li Keqiang, who has traveled to many countries visiting with national leaders, praising CR, and advising officials on how other countries should jump on board to build new rail networks while working in tandem with CR to construct faster and more efficient HSR and rail freight lines.

Premier Li championed China's railways diplomacy and Chinese exporters understood that supporting the development of rail freight would help them to deliver goods overseas when crossing large land territories as they could integrate better with foreign companies in South Asia, the Middle East, Central Asia and Europe. That would establish stronger linkages between China and the "Eurasian Continent". Chinese President Xi had spoken about more mutually beneficial "cooperation across the Eurasian Continent" during a speech he delivered at the College of Europe. He was quoted as saying:

We need to build a bridge of growth and prosperity linking the two big markets of China and Europe. China and the EU are the two most important economies in the world, accounting for one-third of the global economy. We must uphold open markets, speed up negotiations on investment agreements, proactively explore the possibility of a free trade area, and strive to achieve the ambitious goal of bringing bilateral trade to US\$1 trillion-worth by 2020. We should also look to combine China-EU cooperation with the initiative of developing the Silk Road Economic Belt, so as to integrate the market of Asia and Europe, energize the people, businesses, capital and technologies of Asia and Europe, and make China and the EU the twin engines for global economic growth.⁶

⁶Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai China: Shanghai Press, 2015), 309–310.

Establishing a more ambitious and united Eurasian continent sounded like a sweeping and overly-optimistic vision on the part of President Xi, but Beijing had already forged closer ties with countries in the region by embarking on China's railways diplomacy. A key player in Europe has been Poland, which had opened itself as China's gateway to Europe via rail freight lines that originated from the landlocked rail port of Chengdu in southwestern China's Sichuan province. As reported by the *BBC News*, Asia's largest rail cargo base could be found in Chengdu. Chinese exporters based in western China no longer had to rely on maritime shipping to deliver goods to the farthest reaches of Europe.

Before freight enters Europe, it heads to Poland where a massive distribution center directs cargo to different member states of the EU. The Chengdu Logistics Office helps to reduce the paperwork needed for goods to pass through Customs and inspections in a number of countries along the journey. The Chengdu Business Park serves as the home base for many companies that export their goods via the Chengdu rail base. Chengdu has transformed into a booming and bustling metropolis on account of serving as the heart of rail freight deliveries from China to Europe.

Additionally, the German government, German companies and its rail networks are developing closer links with CR. *RailTech* reports that German-based Deutsch Bahn (DB), a railways consulting and maintenance firm which has worked with Chinese railways firms and networks since 2006, signed a cooperation agreement with CR on November 19, 2018 to exchange knowledge on new technological innovations for railways. Germany has plans to expand rail freight traffic between China and Germany, targeting for more than 100,000 containers from China by 2020. Chinese rail freight is expected to originate mainly from either Yiwu or Chengdu and to arrive at Hamburg Port, where goods can either be placed on trucks or on cargo ships as Hamburg has a sea-based port on the northern German coastline. CR has also announced plans to invest over 300 billion Euros in Europe from 2018 to 2023.

We can anticipate that Poland and Germany will play key roles in CR's bold European integration strategy. CR has been a big spender on

rail projects worldwide and has garnered much publicity for its projects in Asia, Europe and Africa, but little is known about its endeavors in Latin America. At present, they are upgrading Argentina's rail lines by developing the Belgrano Cargas Freight Railways will become a transport artery across the nation's bountiful agriculture sector and mineral resources region upon completion. Argentina has a good climate for raising crops and livestock but its logistics networks are so inefficient that farmers and ranchers hoping to export their surplus goods overseas are not able to do so on account of poorly-built roads and railroads in the surrounding areas.

The newly established railways in Argentina would open up new opportunities not only for Argentinian agricultural producers, but also for Chinese investors and middlemen looking to cash in on cheaper and more efficient delivery of goods from the country. Argentina also has large areas of underground mineral deposits, but since the resources are located in such isolated zones, few firms have made attempts to extract them. With the emergence of the Belgrano Cargas Freight Railways, rail lines are likely pass through those regions, making it easier for miners to work there.

Nevertheless, CR has assumed huge risks in constructing railway networks in many locations all over the world with many trains passing through vast and desolate terrain where few people reside. *The South China Morning Post* printed an article describing CR's massive debt challenges. In June 2018, CR had to inject \$1.8 billion in fresh cash by exchanging its debt for equities in a Chinese government-backed initiative. The private investors included: China Great Wall, China Orient, China Cinda, Structural Reform Fund, Sinda Investment, BOC Assets, ICBC Financial, BOCCM Financial and China Reform. Nearly all these investors are Chinese SOEs in charge of bad debt management. 2018 was not a good year for CR as contracts with Malaysia were shut down by the newly-elected President Mahathir, but Kuala Lumpur later returned to talks with CR in efforts to negotiate a better deal. Meanwhile, CR had to deal with canceled orders by the California state government to build HSR lines running between Los Angeles and Las Vegas, and along the California coastline.

Currently, CR is loaded by heavy debts, and charges for paying interest on loans exceeds its annual profits. According to CR's annual financial report, the company generated revenues of RMB693.4 billion in 2017, which was a 7.8% increase compared to the year before, while its profits were RMB16.6 billion, a 28.4% increase compared with 2016. Despite the huge debts, the Chinese government is backing CR and will not allow the company to go bankrupt at least for the next few years.

Beijing recognized the significance of building more railway networks in China and throughout the world in order to make China's BRI and South-South cooperation a true success story. President Xi's grand vision for a more united Eurasian Continent, his aspirations for RCEP to get signed, sealed and delivered by all signatory parties, and the urgency to make the Chinese dream come true for Chinese manufacturers and exporters would mean that CR has to keep building more railway networks overseas.

Beijing still has to confront rising trade tensions with Washington while hoping to build stronger ties with other countries. However, more countries are embracing trade protectionism.

New geopolitical trends have emerged in which nationalism, patriotism, and rebellions against the so-called "new world order" have become more common. After President Trump entered the White House, the winds of change blew across the globe. Consequently, the EU has weakened, Latin American countries have elected new leaders, while Africans stand at a critical juncture. Will they side with China or Western powers? And what must Beijing do to make the right adjustments in order to keep winning?

Part III

**Geopolitical and Economic
Transformations**

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Chapter 7

Globalism Fades Away

Clearly, no longer can a dictator count on East-West confrontation to stymie concerted United Nations action against aggression. A new partnership of nations has begun. And we stand today at a unique and extraordinary moment. The crisis in the Persian Gulf, as grave as it is, also offers a rare opportunity to move toward a historic period of cooperation. Out of these troubled times, our fifth objective — a new world order — can emerge: a new era, freer from the threat of terror, stronger in the pursuit of justice, and more secure in the quest for peace. An era in which the nations of the world, east and west, north and south, can prosper and live in harmony.

US President George H.W. Bush addressing a Joint Sessions of US Congress on September 11, 1990 to announce the start of Persian Gulf War.

We have had our fair share of choking in the water, we have encountered whirlpools and choppy waves, but we have learned how to swim in the process.

Chinese President Xi Jinping delivering a keynote address at Davos Forum on January 17, 2018.

Globalism can be a great opportunity.

French President Emmanuel Macron.

New World Order

When taking a closer look at the passage below spoken by a famous American politician, one might ask: who said it?

I see a world of open borders, open trade, and most importantly, open minds, a world that celebrates the common heritage that belongs to all the world's people, taking pride not just in hometown or homeland but humanity itself. I see a world that is touched by a spirit like that of the Olympics, based on the competition that's driven by fear but sought out of joy and exhilaration and a true quest for excellence. And I see a world where democracy continues to win new friends and converts old foes and where the Americas — North, Central and South — can provide a model for the future of humankind: the world's first completely democratic Hemisphere. I see a world building on the merging new model of European unity, not just Europe but the whole world and free.¹

Unless a person is an expert on US Presidential speeches, one could be forgiven for concluding that such remarks were made by former US Secretary of State Hillary Clinton, since she was quoted from a paid speech at Brazilian Banco Itau in 2013 as saying:

My dream is a hemispheric common market, with open trade and open borders, sometime in the future with energy that's as green and sustainable as we can get it, powering growth and opportunity for every person in the hemisphere.²

Yet readers may be surprised to learn the original speaker of the “open borders, open trade” phrase was none other than President George H.W. Bush in a speech at the United Nations General Assembly on October 1, 1990. Bush was elected to the White House as a Republican and had served as Vice President for two terms in the White House during the Reagan administration (1981–1989). Reagan was known as a conservative firebrand who pledged allegiance to national sovereignty, patriotism and many parts of the “America First” agenda as well. Apparently, George H.W. Bush held different viewpoints and when he had reached the pinnacle of his political career as president (1989–1993), he cast aside the conservative-leaning mask

¹University of Virginia Miller Center, “Address to the nation on the invasion of Iraq”, <https://millercenter.org/the-presidency/presidential-speeches/january-16-1991-address-nation-invasion-iraq> (January 16, 1991).

²Washington Times, “Clinton admitted she's for ‘open borders’ in paid, private speech: Wikileaks”, (October 8, 2016).

and showed his true face as the godfather and founder of today's globalism movement. And his groundbreaking speech started the onset of new political trade winds when he announced the beginning of a "new world order" on September 11, 1990 at a joint session of the US Congress:

Out of these troubled times, our fifth objective — a new world order — can emerge: a new era — freer from the threat of terror, stronger in the pursuit of justice, and more secure in the quest for peace. An era in which the nations of the world, East and West, North and South, can prosper and live in harmony. A hundred generations have searched for this elusive path to peace, while a thousand wars raged across the span of human endeavor. Today that new world is struggling to be born, a world quite different from the one we've known. A world where the rule of law supplants the rule of the jungle. A world in which nations recognize the shared responsibility for freedom and justice. A world where the strong respect the rights of the weak.³

The "new world order" quote had come like a shot across the bow. It could be argued that the age of globalism had started on September 11, 1990 and ended on November 8, 2016 when Trump was elected to the White House. In our contemporary society, it is hard to fathom that a Republican, not a Democrat, president would be recognized as the founding father of the "new world order" and globalism. That is because internationalism is considered to be mainly supportive of the UN, the climate change pact, multilateralism, open borders, open trade, European Union (EU) integration, political correctness, and ambitious goals set forth by the UN agenda. In the US, Democrats have often praised globalism since they view higher taxes and tougher business regulations as a necessary component of the current economic structure in the country.

The globalist movement has granted them political cover to enforce a so-called "nanny state" which entails global governance mechanisms

³University of Virginia Miller Center, "Address before a Joint Session of Congress", <https://millercenter.org/the-presidency/presidential-speeches/september-11-1990-address-joint-session-congress> (September 11, 1990).

playing a stronger role in people lives. The concept proposes generous social welfare subsidies and, at the same time, more restrictions and supervision over people's daily lives imposed by the State, claiming it is for public safety and their well-being. An example would be laws that require bicycle riders to wear helmets even if they are cycling for leisure.

Looking at the background of President George H.W. Bush, it seemed that the man was destined to become a leader of the US. His family and key supporters backed efforts to endorse a new world order that embraced globalist ideals. He was born into a family of wealth as his father, Prescott Sheldon Bush (1895–1972), served as US Senator for Connecticut and held deep connections to Wall Street as an investment banker. The family was enormously wealthy with a huge family compound on the coastline of Kennebunkport, Maine. George H.W., the model son, had attended elite schools such as Philips Academy in Andover, Massachusetts and Yale University where he was a member of a super-secret fraternal society called Skull and Bones.

Bush was a patriot for his country too, signing up for the Navy in the immediate aftermath of Pearl Harbor when the Japanese military had launched a surprise attack on US military installations on the island of Hawaii on December 12, 1941. He served as a heroic fighter pilot in the Pacific until Japan surrendered on September 2, 1945. Soon after graduating from Yale, he moved with his wife, Barbara, and their oldest son, George Walker (a future US President, 2001–2009) to Odessa, Texas where George H.W. (Bush Sr.) launched a booming business in the Lone Star state's oil industry. His political career started when he was elected as Republican Party Chairman of Harris County, then won a seat in US Congress in 1966 representing Texas' 7th District in Houston. He campaigned as a moderate Republican and throughout much of his political career would clash with prominent conservative leaders in the GOP in Texas and Washington circles. He was never a Reagan clone even while he was serving as Vice President.

After a short stint in Congress, then President Richard M. Nixon appointed him as US ambassador to the UN (1970–1973) where he developed close connections with diplomats from all over the world. Many believed that he had been educated on the alleged virtues of

globalism and everything that it entailed during these years at the UN. In 1973, Nixon appointed him as chairman of the Republican National Committee (RNC) (1973–1974). Later, President Gerald R. Ford assigned him to be the US envoy to the People’s Republic of China in Beijing for two years, and after that he became the director of the Central Intelligence Agency (CIA) (1975–1976). Bush Sr. returned home to Houston for a few years until he campaigned for Presidency in 1980 but lost to Reagan who selected him as his running mate after securing the GOP nomination.

Bush Sr.’s connections to UN officials, his tenure in China, and CIA directorship demonstrated that if anyone was going to become a leading figure of the deep state and new world order, it would be him. Although, his health was failing and his influence as Republican kingmaker prevented him from taking charge as trailblazer for the NeverTrump forces in the GOP, Bush Sr., his family members, and networking circles had already set the stage to stir up tribulations against the Trump White House. The Republican Party had split into starkly divided camps, one side supported by the Bush family, defenders of the new world order, and the rival power led by the Trump family. This explained the sharp contrasts when President Trump delivered a speech at the UN General Assembly in New York as he declared an end to globalism’s reign while reaffirming his loyalty to national sovereignty. Trump is quoted as saying:

America is governed by Americans. We reject the ideology of globalism, and we embrace the doctrine of patriotism.

Around the world, responsible nations must defend against threats to sovereignty not just from global governance, but also from other, new forms of coercion and domination.

In America, we believe strongly in energy security for ourselves and for our allies. We have become the largest energy producer anywhere on the face of the Earth.⁴

⁴Haaretz, “Donald Trump’s address at 2018 UN General Assembly”, <https://www.haaretz.com/us-news/full-text-donald-trump-s-address-at-the-2018-un-general-assembly-1.6509501> (September 25, 2018).

After Trump's remarks were uttered, the Bush-crowd Republicans responded in shock, along with mainstream media outlets in the West and many other Western world leaders. And even during his speech, Trump was interrupted by UN representatives, who had long supported globalism, and they were observed laughing at and heckling President Trump. The leaders of the new world order had apparently forgotten about the reasons why Trump was elected to lead the world's most powerful and richest country, and they continued to underestimate him and perceived him to be a clown on the world stage.

Nonetheless, Trump voters had elected him to support an "America First" agenda and to expel the globalists from the reign of power in Washington. For many Americans, Bush's hailing of a new world order was no longer heralded as a "thousand points of light" to bring peace and prosperity for the world; they viewed it as more likely a dark conspiracy that could lead the country down a path of ruin, doom and oligarchy.

The *Urban Dictionary* defines "new world order" as a "conspiracy by rich and powerful people plotting mass population reductions" that would eventually lead to a "one world government", to be redefined as a "globalist dictatorship". Not only conservative Republicans but far-left Democrats as well had sworn abhorrence of the "new world order" values system, and the groups that were labeled as opponents of internationalists would be recognized as populists during the Trump White House years. Perhaps, the then President George H.W. Bush was mouthing flowery propagandist phrases, since that was a time when he was at the White House and he sought to wage a war in the Persian Gulf against Iraq after the late Iraqi President ordered his troops to invade and occupy Kuwait.

Consequently, Bush was seeking support from the UN and other governments around the world to form a multination military to defeat Iraq on the battlefield. Bush was a pragmatic and moderate politician, and understood that the only way to inspire other world governments to join his cause was to proclaim a new world order where all nations could share the same power and prestige along with Washington. And if that was his intent, the strategy was effective, since the US-led

multinational Armed Forces swept the Iraqi military out of Kuwait. But why did Bush hail “open borders, open trade”? Such words had opened up a Pandora’s box which inspired globalists in Europe to push ahead for a more united continent with the formation and strengthening of the European Union.

EU Sets an Example

The original concept of the EU was the ideal of a commonwealth of nations that would share borders, along with customs and inspections, imposing no tariffs on each other and allowing for free travel among citizens of designated member states. This concept had started long before George H.W. Bush even began his political career in Texas. It was also much earlier than the reforms and opening up that were introduced into China in 1978.

The EU, consisting of 28 sovereign countries as of December 31, 2018, celebrated its 60th birthday in March 2017. In 1957, the EU, formerly known as the European Economic Community (EEC) was formed not as an effort to establish a new world order, but out of political expediency and to ease business regulations among the six member states: Germany, France, Italy, the Netherlands, Luxembourg and Belgium. Under the Treaty of Rome, the EEC’s goal was to help the coal and steel industries of participating member states enter into a community of customs unions that formed a common market based on the free movement of capital and goods.

At the time of its establishment, the EU founding fathers did not envisage Europe as an all-powerful state ruling over the world. Actually, the governments of western Europe had feared that if they had refused to forge ahead on a common market among rival states in the continent, there was the risk of yet another world war blowing up in Europe again. Western Europeans, particularly the citizens of the EEC member states, believed an economic cooperation union was the best alternative to avert future wars.

During the 1950s, Europe had overcome the disastrous aftermath of World War II with much assistance from US President Harry S.

Truman and the Marshall Plan, in which Washington offered aid and support for the rebuilding of infrastructure and governments on the continent in order for Europe to return to normal and potentially regain its former greatness.

By the late 1950s, the continent was starting to enjoy higher economic growth rates, while regional coal and steel companies were becoming much more profitable. Coal and steel owners wanted the formation of an EEC to succeed so they could transport and export their products to other nations at lower costs and with fewer restrictions when crossing international borders, customs and inspections. For business people in Europe, the free flow of goods across borders made perfect sense to them. Europe was composed of many countries. If a Polish exporter of sausage wanted to deliver its product to supermarkets in Italy, the company could lower transport costs by not having to pay different rates of tariffs when crossing multiple international borders and avoiding unnecessary delays at cross-border inspections offices.

The Schengen Accord that came into effect in 1995 had halted such border checks for EU-based companies transporting products to other member nation-states. The EU was established simply to allow EU countries to receive such preferential treatment in trade and investments among member states, enabling European companies to cooperate on industrial supply chains. When such nations had agreed to exchange the same currency, the Euro, which first went into circulation in 2000, there would have been a strong likelihood that the EU could have succeeded and garnered much praise from the world if the EU had only concerned itself with economic affairs.

However, as the saying goes, “success has a thousand fathers and failure is an orphan.” When the EEC had transformed into a resounding achievement for Europe’s coal and steel firms, more European countries requested to join and politicians, civil servants, bureaucrats, lobbyists, big business, labor unions, environmentalists, social workers and all types of special interest groups wanted to jump in and add their ideas into the new system, proving yet again that “too many cooks spoil the broth.”

New members were added in the 1960s and onwards, and as of December 31, 2018, the EU countries were: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. Additionally, the EU had been divided into three branches — the European Council (national governments), the EU Parliament (elected members) and EU staff (bureaucrats). The European Council President Donald Tusk serves as an unelected official who sets policies, introduces new legislation, and serves as the primary political leadership coming into 2019.

The EU Parliament debates and approves laws. However, unlike in a US democracy with checks and balances on the three branches of government — legislative, judicial and executive — the Parliament is relatively powerless. The European Council can ignore the EU Parliament if it so wishes. The EU staff are mainly expected to act as enforcers on behalf of the European Council as they act in a supervisory capacity and as regulators on EU mandates and laws in regard to regional, agriculture and social policies for the Eurozone.

The EU no longer just concerns itself with economic policies, but delves into many other matters of concern, such as lawmaking, foreign policy, and social engineering that impacts the national sovereignty of member states with its strict enforcement measures. Many EU residents harbor fears of the EU becoming another Big Brother state, a police and surveillance society, as described in George Orwell's novel, *1984*. Ironically, the EU started to emerge as a globalist and interventionist force shortly after President George H.W. Bush entered the White House and hailed the new world order.

We can trace these developments back to the Maastricht Treaty (1992–1993) in which leading figures of the then EEC (later renamed the EU) had laid the initial groundwork for the evolution of the Euro currency and set up plans for EU expansion while formulating clear rules on foreign policy, public security, and justice. In other words, the

current framework for the EU had been largely formed by the lead up to negotiations that stemmed from the Maastricht Treaty.

The EU as a power structure was further strengthened by the founding of the European Central Bank in 1998 and the drafting of a formal Constitution in 2005. Meanwhile, environmentalists had solidified leading roles in the EU which in some instances served the common good. They established EU agencies and introduced new laws to reduce pollution levels on the continent that set the stage for much lower carbon emissions continent-wide, purifying the waters, encouraging ecological sustainability, clearing the air, planting more forests, and promoting the development of green energy resources such as solar, wind and hydro, while constructing more emissions-free nuclear power plants.

The Green movement within the EU framework at the beginning stages played a crucial role in upgrading Europe's image and soft power status. In the eyes of the world, many people viewed Europeans as eco-friendly, diplomatic, and tolerant individuals that made them uniquely stand out among their Chinese and American peers who had reputations of being more money-loving, hard-charging and having exuberant confidence. Despite the drastic contrasts between US and Chinese history, as well as their respective political systems, the Chinese and Americans did share remarkable similarities in personality traits, while Europeans were vastly different from both.

Nonetheless, the EU rose as a political power state and enforcer of the Green movement and began to lean towards more authoritarian measures when its leadership felt the populace and other countries were not showing due respect for their powers. As the Green movement became much more powerful and wealthier, an increasing number of climate change skeptics believed they had either been corrupted or were prime targets for corruption. According to a report by Climate Action Website, the EU Commission had put forward a proposal to spend over 114 billion Euros in the 2019 EU budget on eco-friendly projects, which would account for about one-quarter of its budget. Nevertheless, French President Emmanuel Macron had criticized the request, insisting the EU should spend more than 200 billion Euros, 40% of the entire budget, on so-called Green initiatives.

As stated earlier, there was nothing wrong with supporting the ideals and far-sighted vision of environmentalists, but when hundreds of billions of Euros went into Green organizations without much supervision, that created a strong temptation for tomfoolery in which criminals, con artists and bribe-taking politicians could hatch schemes to divert huge sums of subsidies from the government into their pockets without the EU being any the wiser. How could the EU spend hundreds of billions of Euros on Green projects as well as on so many other social-engineering initiatives? Was it necessary to subsidize construction firms that built bridges for wildlife crossings, including crossings for moose? How would a moose know where to find such a crossing? They could not read signs for directions. Even if the moose had stepped in front of a crossing, would it know how to use it without guidance? The EU has already spent large sums of government funds on all sorts of frivolous and impractical projects. The money did not grow on trees; it had come from EU taxpayers. Hence, EU residents paid high tax rates while facing some of the world's toughest business regulations. The working poor and the middle class struggled since nearly half of their income went to pay taxes. This explains the slow growth of EU economies.

Even in 2017, which was considered a prosperous year for Europeans at large according to Eurostat, the overall EU economic growth rate was just 2.5%. That was the strongest performance in the EU since 2007 when it hit a record of 2.7% growth. Despite higher growth in 2017, as of the end of 2018, EU economic growth had only reached 2.2%. The Standard Chartered Bank has forecast EU growth to slow down to 2% in 2019.

As of the end of 2018, Europe had a population of around 512 million, but birth rates among European natives have stagnated, leading to more people dying than being born for many countries on the continent. Aging populations mean more people retiring than young people entering the workforce and therefore lower tax revenues generated. Meanwhile EU governments offer generous pension plans for retirees with subsidized healthcare. Thus, a vicious cycle of rising public debt and falling tax revenues continues to spiral out of control. The EU

sought to alleviate the continent's death spiral by encouraging many refugees from war-torn states in the Middle East and north Africa to apply for asylum status in 2015, but such actions were risky and have disrupted the social order.

A large number of terrorists have taken advantage of opportunities to sneak into Europe to spread terror cell networks. In other instances, they have moved into certain towns, such as Malmo, Sweden to incite widespread havoc, such as rioting in the streets, burning cars and shops, along with forming rape gangs that target young girls and women. Meanwhile, as refugees, they can sign up for EU social welfare benefits, which means EU taxpayers are funding their lifestyles, leading to added public debt. Moreover, due to the stringent labor laws in the EU, young adult males are not permitted to work in many jobs unless they can prove EU citizenship status and qualify for membership in specified labor unions.

Apparently, the EU was created and developed mainly as an experiment to determine if globalism and the "new world order" could indeed succeed if put into practice on the European continent. Many Europeans have continued to endorse the EU governance mechanism as the right path to peace and prosperity, but in recent years, the EU has expanded and its powers have become more cumbersome to its citizens. There has been a slow but growing movement of populists who have expressed defiance against the EU. The ascent of this new populism is likely to impact the power and economic status of the EU. Some experts consider that the EU is beginning to disintegrate and forecast that it may soon cease to exist. If the EU experiences steeper declines in wealth and influence, Beijing and Washington will inevitably alter their relations with Brussels if they no longer see a fundamental requirement to maintain equal partnerships with them.

Rise of Populism

The elites, EU Council, Big Media, Big Academia and Big Business that are based in Europe had all thought that their idealism and globalist

fervor would be loved by the masses and would serve as a positive role model for setting up governance mechanisms among all nations. However, they were quickly disabused of such notions with the rise of China and Russia as powerful nation-states that had vowed never to surrender their sovereignty under any circumstances. Both nations were perceived as redefining their territorial boundaries which enraged neighboring countries including the Ukraine, Vietnam, and the Philippines among others.

Turmoil in the Ukraine over Moscow declaring territorial possession over Crimea had spoiled relations between the EU and Russia as the North Atlantic Treaty Organization (NATO) continued to deploy and build more military bases near the Russian border and imposed harsh economic sanctions against Russian citizens. Nonetheless, the strategy to isolate Moscow from the global community had only appeared to cause Russian President Vladimir Putin to gain favor in the hearts of his nation's voters. The international attempts to undermine Moscow inspired Russian voters to become more patriotic, nationalistic, and supportive of their leader as they had viewed him as a courageous champion with an all-enduring Russian spirit.

The likelihood of the EU emerging as masters of a greater Eurasian super state also seemed more unlikely. China and Russia shared a common land border and since the EU had delivered punitive measures against Moscow, there should have been no surprise that Beijing granted more favorable treatment to Russia, not supporting any sanctions imposed on the country, while boosting cross-border trade and investments between the two nations. In an article posted by *China Briefing*, Russian Ambassador to China, Andrey Denisov is quoted as saying that:

This year, for six to seven months, growth of trade turnover amounted to around 30 percent. If we keep this momentum, then by the end of the year our trade will reach US\$80 billion and even slightly more.⁵

⁵China Briefing, "China-Russia bilateral trade is world's fastest growing opportunity corridor", <https://www.china-briefing.com/news/china-russia-bilateral-trade-is-worlds-fastest-growing-opportunity-corridor/> (August 30, 2017).

By reviewing data compiled by the General Administrative Customs of China, “trade turnover between Russia and China in January–July this year had increased by 25.5 percent in annual terms to US\$46.82 billion. At the end of 2016, this indicator grew by 2.2 percent in annual terms to reach US\$69.52 billion,” as quoted by China Briefing. Hence, China-Russia bilateral ties began to witness boom times for trade in 2017, while in 2016, the two countries had yet to see their economic cooperation blossom. A number of factors could explain the sudden surge of soaring trade, such as Beijing and Moscow agreeing to forge closer ties on China’s BRI, Russia’s far east policy, the China–Mongolia economic corridor, and building China-Russia railways networks.

With the integration of the grand projects that were tied into the Shanghai Cooperation Organization (SCO) and with cooperation from Central Asian countries, both China and Russia have experienced a golden era of bilateral neighborly relations. The government of the Russian Federation has posted data listing China as Russia’s top exporting partner. In 2017, Russia had total exports valued at \$359.2 billion with exports to China alone totaling \$38.9 billion (10.9% of all Russian exports), but Russia still had a trade deficit with China of \$9.1 billion, which was the largest among all its trading partners.

Russia could largely avoid the negative impact of the economic sanctions that the US and EU had imposed on the country while helping China to overcome increasing trade tensions with the US. Even if Brussels and Washington had chosen to act tougher against Beijing, the Chinese government knew it could rely upon more enhanced relations with Moscow. Such actions had helped maintain unity and strength for both Chinese and Russian citizens. As the saying goes, “a friend in need is a friend indeed.” Media reports have highlighted the enduring friendship between Xi and Putin as they frequently meet each year on state visits and at major diplomatic gatherings. The stronger China-Russia ties also demonstrate the short-sighted failures and expose the weaknesses of the European Council.

The EU leadership is not all-powerful, and when the European governing body has attempted to punish powerful nations outside the EU’s realm, they rarely succeed in forcing rival states to surrender to

their terms when directly challenged. The Maastricht Treaty was an effort to establish the EU as a dominant presence in diplomatic circles. When EU diplomats pursued peaceful soft power measures, they were largely successful, but when imposing its mandates in dictatorial terms by issuing letters of rebuke and warning against non-EU aligned countries, the targeted countries, especially Russia, generally ignored their demands. The EU as peacemaker was good for the world, but the EU as sanctions enforcer as well as moral imperialist only caused more harm than good in geopolitics and the global economy.

In an imperfect world, the notion that a superior governing body, such as the EU, could act in complete harmony in world affairs while creating a Europe of total unity was never possible. Yet, the European Council had often ignored common sense and continued to build a stronger EU, believing that the more powerful it became, the more righteous it would be. This experiment was not destined to prevail, and as the EU expanded to include more members at the turn of the 21st century, cracks started to emerge that would nearly derail the EU in the process.

The first major shock to the system was revealed when Greece nearly went bankrupt after warning of potentially going into default on its public debts to the ECB and other European banks, with German banks taking the major brunt of the impact. But was Greece really at fault? The EU had portrayed its governing body in such magnanimous terms and had spent so much on social welfare that nations including Greece, Portugal, Spain, and Ireland had concluded that if they too joined the EU, they could tap into the largesse of EU treasuries and spend the funds however they wished. Hence, Athens had deemed it a glorious opportunity to receive generous loans and aid packages, allowing for Greek officials to pay off prior debts and increase national government expenditure to boost the local economy. But eventually, the money had run out for the Greeks.

Let us take a closer look at the timeline of the Greek debt crisis to understand its ramifications and to learn how the EU's handling of the crisis led to a further weakening of the EU. Additionally, the EU's response shows that in failing to punish bankrupt countries, the EU

had created “moral hazards” in which countries knew that they could avoid future bankruptcies even if they were at fault for spending unwisely. In 2010, Athens informed the public it might default, which could have collapsed markets in the Eurozone. In desperate rescue bids, the ECB and EU banks loaned Greece 294.7 billion Euros from 2010 to February 2015, as reported by *The Balance*.

As of November 2018, Athens had only paid back 41.6 billion Euros, but the scheduled repayment plan was to last until 2059. Although Greece was required to implement austerity measures, imposing higher taxes and cutting back on social services in the country, after a few years, the Greeks voted against these measures and a new national Socialist government swept into power led by Prime Minister Alexi Tsipras. The debt bubble grew even worse for the country as they halted austerity measures and failed to make scheduled repayments on time. Each time a new sovereign debt payment was due, Athens would receive approval from the ECB to receive more bailout loans in order to pay back loans. In other words, Athens would take out more loans to pay prior debts, causing more public debt to pile up for Greece in the years ahead, which was a “rob Peter to pay Paul” scenario.

From an ethical standpoint, Athens’ actions were immoral and reprehensible, but the EU as a lender of last resort deserves public shaming as well. EU banks gave loans to Greece without requiring much oversight; they should have assumed more of the risk or performed stronger due diligence before delivering loans to Athens. The EU banks were not victims here; they took an investment gamble and lost, but instead of halting further loans to Greece, they were encouraged by the ECB to make more loans with promises of guarantees from the ECB should Athens default. Accordingly, EU banks profited from the Greek debt crisis by acting as middlemen for the ECB and charging Brussels for their services, and also charging higher interest rates on the loans to Greece.

Now flash forward to 2015–2016, when bailouts of EU countries in southern Europe had long faded into a distant memory. The EU had already shown that when a crisis ensued, the European Council

would take actions that were short-sighted and could result in long-term painful consequences. Accordingly, since the EU had grown weary of plunging birth rates and had decided to open up the gates to immigration, massive hordes of refugees began flooding into the EU. But with regard to the EU public debt crisis, Europeans overall did not feel very alarmed. They already knew their governments were spending way beyond their means and, if worse came to worst, the ECB would just print more Euros to resolve any bailout crisis.

Hence, Europeans did not feel threatened or in danger on account of increasing public debt. But the latest onslaught of terrorism cells and jihadist bombings, shootings and stabbings spreading across the continent has led to much higher crime rates. Suddenly ordinary Europeans, who had been living in peaceful surroundings, although paying high rates of taxes, now feared an increasing risk of losing their lives in random terror attacks when walking on city streets or shopping at local stores. The heightened alerts and disruptions to public safety had made Europeans more fearful and so they began to distrust that their governments and the EU could protect them.

Needless to say, the new normal of higher crime rates, sex gangs, and increasing terrorism have inspired many Europeans to embrace law and order and more conservative values as the tools to fight back against social disintegration in Europe. A number of countries in central and eastern Europe, known as the Visegrad countries of central Europe — Hungary, Poland, the Czech Republic and Slovakia — have led the way in electing more conservative-leaning governments. In other countries, populist parties are winning a larger share of the votes in national elections. The BBC News posted a comprehensive listing of populist parties in the EU in 2018 that are beginning to assume greater prominence in EU politics. These are: Sweden Democrat, Danish People's Party, Freedom Party (the Netherlands), Law and Justice Party (Poland), National Front (Le Pen) (France), Swiss People's Party, The League (Italy), Golden Dawn (Greece), ELAM (Cyprus), Jobbik (Hungary), United Patriots (Bulgaria), Freedom Party (Austria), Freedom and Direct Democracy (Czech Republic), Our Slovakia, Alternative for

Germany, and The Finns. Meanwhile in recent national elections, populist leaders have assumed power, such as Austrian Chancellor Sebastian Kurtz, Hungarian Prime Minister Victor Orban, Czech Republic Prime Minister Andrej Bobis, Polish President Andrzej Duda, Slovakian President Andrej Kiska and Italian Deputy Prime Minister Matteo Salvini. Nearly all the populist parties and leaders connected to them would stand in unison to demand tougher border enforcement and oppose refugees coming into their countries.

However, not all populist movements that espouse Eurosceptic views are conservative-leaning. In the last two months of 2018, another group, known as Yellow Vests, had popped up out of nowhere as they led protests in Paris that quickly swept across the country and then to other countries in northern Europe. The protests started innocently enough — the demonstrators opposed a new tax on gas of \$7.06 per gallon in France. The middle class and working poor would bear the brunt of the costs as many of them live in the suburbs and need to drive a car to and from work. According to French law, all drivers have to wear a yellow vest so they will be more visible to oncoming traffic if their vehicle stalls or meets with an accident.

So they wore their yellow vests with pride at weekend protests, while demonstrations escalated into violent riots with hundreds of thousands of people swarming the streets to swear solidarity. The gas tax increase imposed by French President Emmanuel Macron was intended to pay for the EU's Green energy projects, but as the Yellow Vests demonstrations became more disruptive, Macron was forced to cancel the new gas tax and even announced new tax cuts in a televised speech to his nation on December 10, 2018. But that did not stop Yellow Vest protests and they made new demands calling for the resignation of Macron and requested more government subsidies to supplement their incomes. The far left has taken charge of the Yellow Vest movement in the EU. Accordingly, as the US and China signed a trade truce on December 1, 2018, the EU appeared to be nearing collapse and globalism was becoming a dirty word for people all over the world. Hence, Beijing would have to make some adjustments.

China: Globalism — Yes or No?

When Trump entered the White House in January 2017, Beijing still harbored doubts that Trump would move forward on his campaign promises to declare a trade war on China. After Beijing called Trump's bluff, they learned that Trump was not joking and Washington's higher tariffs on Chinese imports in 2018 were starting to make a serious dent in China's economic growth prospects. The Chinese government had started to look to other nations and regions to build better trade partnerships by promoting RCEP talks and BRI. However, Beijing had run into numerous unexpected roadblocks and unnecessary delays in the process.

Before China felt compelled to seek compromise with Trump, they wanted to play one final trump card in the hopes that they could prepare for battle against Trump by aligning with other nations and persuading regional powers to side with them, including Canada, Latin America, Africa, the Middle East, the EU, Russia and other Asian countries. This final ploy would be for President Xi to travel the world to meet national leaders, touting the benefits of globalist values and hoping that more countries would endorse a vision of China playing a bigger role in global governance mechanisms.

Although the strategy proved ineffective, Xi put his best efforts into showing solidarity to the globalist cause before concluding that such ideals were not practical. China had abandoned such notions at the 2018 G20 Summit when they did not request other member states to endorse globalism in a joint statement that was signed by world leaders. Instead, at the G20 meeting, Xi and Trump, after signing a trade truce, reaffirmed their friendship and commitment to the spirit of national sovereignty and patriotism while not urging all nations to embrace the UN climate change pact and other internationalist principles.

Nonetheless, President Xi has strived for the successful implementation of globalism for a number of years, and as leader of China, he had encouraged all Chinese to welcome “a community of common destiny”, a slogan frequently mentioned by President Xi and Chinese Foreign Minister Wang Yi, as well as by officials from the Ministry of

Foreign Affairs. Xi had also delivered a number of speeches praising such ideals such as in the keynote address at the 2018 Davos Forum hosted by the World Economic Forum (WEF), where government and business elites gather together at the Swiss ski resort town every January.

Even before his well-documented Davos speech, Xi had often praised internationalism, including in the early years of his first term as President of China. At his keynote speech at the 5th BRICS Leaders Summit in Durban, South Africa, Xi said:

We should vigorously promote a global development partnership and work for the common prosperity of all countries. A single tree does not make a forest. In this era of economic globalization, we BRICS (Brazil, Russia, India, China and South Africa) should not just seek our own development, but also work for the common development of all countries.

We should run our own affairs well by expanding our economy and improving the people's lives, and create new sources of growth for the world economy. We should encourage all countries to strengthen coordination of macro-economic policies, reform the international monetary and financial systems, promote, liberalize, and facilitate trade and investment, and bolster the momentum of global economic growth.⁶

China had numerous reasons to endorse globalism since it had emerged as a leading political trend when former US President George H.W. Bush introduced the new world order in 1990. Many believed that the Bush administration had set the stage for China's rise as the world's top exporter and manufacturer since he had paved the way for Beijing to gain more influence at the World Bank, UN, IMF and other global governance mechanisms. When the Bush administration granted MFN status to China which the US Congress would have to vote for or against every year, it was a foregone conclusion that Congress would not feel any compunction in voting against it in subsequent years. When the Clinton administration granted permanent MFN to Beijing, few people in the halls of Congress expressed skepticism over the move

⁶Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 356.

and fewer still worried about China's entrance into the WTO. However, the long-term impact of that decision led to huge US–China trade deficits for the US, while millions of US manufacturing jobs were eliminated since new factories opened in China and elsewhere.

When the world embraced free trade and open markets, China stood poised to prosper from such sentiments. They had the world's largest labor market, while favorable government policies were in place to boost the nation's manufacturing sector and exports overseas. Beijing enjoyed bigger benefits from globalism than the Europeans and EU since China's growth rates were much higher than all other major Western nations during that time period. And in 2011, China surpassed Japan in total GDP to become the world's 2nd largest economy.

Since many countries were showing a reluctance to oppose globalist values, Chinese exporters had taken advantage of that. Who could blame them? Many countries besides the US had huge trade deficits with China, but they had turned a blind eye to such concerns in order to prove they welcomed free trade as the golden rule. Had Trump never been elected to the White House, it is commonly assumed that few nations would have confronted China's apparent unfair trade measures. The *status quo* would have marched ever forward and Beijing would have amassed much larger trade surpluses with many foreign countries unhindered. China would only have to pay lip service in support of globalism to keep the ball rolling. This was pragmatic on the part of the Chinese government. In 2013, Xi took an oath to be the nation's President, a year after Obama was re-elected as US President.

Obama was perceived as a leading stakeholder of internationalism, as were his predecessors — George H.W. Bush, Bill Clinton and George W. Bush. Obama appeared unwilling to rock the boat in world affairs, which explained why he said he wanted “America to lead from behind” over geopolitical issues. Hence, Xi understood that the best strategy was to demonstrate Beijing's commitment to globalism as well, since in 2013 it was commonly assumed that Americans were unlikely to elect an “America First”-style president in 2016. Of course, Trump's electoral victory has proven the forecast to be inaccurate, but in 2013,

Obama and the EU were witnessing the height of their powers and influence, which meant that supporters of populism were largely ignored while only a few thought they had a chance to rise to power and gain international influence.

The Chinese government had demonstrated its endorsement of globalism by delivering more funding to the UN to support the UN's key campaigns — South-South Cooperation, poverty eradication, sustainable development initiatives, women's empowerment, the climate change pact, and so much more. During the Obama administration, Beijing had nothing to lose by proclaiming support for the UN agenda since that gave them an opportunity to wield greater influence over world affairs. Back in 2013, world powers were not demanding that China implement fair trade policies that would narrow trade imbalances, and so Beijing had played it smart by not criticizing globalism.

Additionally, Xi had expressed public support for stronger US–China ties during the Obama era which enabled Obama to avoid direct confrontation with Beijing. Consequently, China's trade surpluses soared higher while Obama served in the White House. To keep China's economy running strong, Xi understood that praising Obama would protect national interests and benefit Chinese exporters. Whether Xi and Obama had a sincere friendship did not seem to matter, because the Chinese President was expected to deliver the best results for his nation and so feigning a friendship with another world leader when necessary was part of his job duties. And Xi did know how to speak with flattering phrases when talking about Obama while he was the US President. After meeting Obama for the first time, he delivered a statement to the press, saying:

President Obama and I both maintain that China the US should and can build a new model of relationship different from the historical clashes and confrontations between major powers, given the rapid economic globalization and the need for all countries in the world to work together. We both agreed to make joint efforts to build a new model of major-country relationship, respect each other, cooperate and seek mutual interests, and bring benefits to our people and the people of the world at large. The world community also expects a continuously improved and expanded China–US relationship.

Good China–US cooperation will serve as an anchor for global stability and a booster for world peace.⁷

One should take note that President Xi used similar phrases when meeting other world leaders, especially heads of state from the EU. The tone was very positive and had led many people to believe that Beijing was in favor of globalism. But when China faced heightened tensions with Washington in 2018 over trade talks and Xi started to recruit North American countries and EU nations to side with Beijing, he discovered that he had no enduring friendships there. Canada had sought a bilateral free trade deal with China, but when Prime Minister Justin Trudeau, wearing rainbow colored socks, visited Beijing early in 2018, he demanded that Beijing sign documents supporting LGBT rights in the trade agreement. President Xi refused to do so and Trudeau had to depart from China earlier than scheduled.

Trudeau continued to harm Beijing's interests after signing the United States–Mexico–Canada Agreement (USMCA) with Trump which had a clause stipulating that Canada or Mexico would not sign trade deals with other “non-market countries” (including China) without receiving prior approval from Washington. And on December 1, 2018, Trudeau allowed Canadian police officers to arrest Meng Wanzhou, chief financial officer of Shenzhen-based Huawei Corp, telecommunications equipment giant and smartphone maker, on the grounds that she was under investigation for violating Iran sanctions and the US Department of Justice had ordered her extradition to the US. President Trump was not involved in the decision to request extradition and had no prior knowledge of her imminent arrest in Vancouver.

Meng has remained under house arrest in Vancouver as she awaits court hearings to rule on whether she will be deported and handed over into the custody of US law enforcement authorities. It appears that the legal wrangling will continue for months and perhaps years in the Canadian courts, unless Meng is granted her freedom by Canada's

⁷Xi Jinping, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 306–307.

judicial ministry. Nonetheless, Canadian Prime Minister Trudeau has pledged to follow the rule of law on such matters and not grant mercy without receiving approval from the Canadian courts first. Accordingly, as the year 2018 was coming to an end, Xi was discovering that Trudeau could not be trusted as a reliable trade partner for China.

Meanwhile, Xi was hoping to sign a formal FTA with the EU, but Brussels had shown no urgency to move forward on it as the year 2018 drew to a close. Apparently, the popularity of globalism and the emergence of a new world order had begun to fade away. But the new normal in world affairs has not yet been clearly defined. What exactly will that be? Many people seem uncertain about what is on the horizon for the future. Nonetheless, Beijing already had a plan and was prepared to implement it when globalism began to vanish slowly but surely into obscurity. The Chinese hailed the plan as the “new normal” for the domestic economy.

Chapter 8

China Enters a “New Normal”

This is a starting point for China to develop a comprehensively deepening reform. To continuously push forward economic and social development, to adjust to a new normal by transforming (the) development mode....

Chinese President Xi Jinping, speech at the B20 Summit,
Hangzhou, China, September, 2016.

I've read hundreds of books about China over the decades. I know the Chinese. I've made a lot of money from the Chinese. I understand the Chinese mind.

US President Donald J. Trump in an interview with the *LA Times*.

Under the “new normal” heading, there's a clear signal being sent to leaders throughout China that growth at all costs is no longer the be all and end all.

Glen Murphy, New Zealand Trade and Enterprise's Regional
Director for Greater China, based in Shanghai.

Defining the “New Normal”

In 2018, Beijing was struggling in the aftermath of Washington imposing higher tariffs on Chinese imports and was facing imminent threats that US tariff rates would more than double from 10% to 25% for many Chinese products at the beginning of 2019. Chinese President Xi felt cornered and had agreed to a 90-day trade truce when meeting with President Trump at the 2018 G20 Summit. Apparently, China's central government was running out of options in resolving US–China trade talks to their advantage, but Washington was forcing Beijing to accelerate its long-term plans that had been set up a few years earlier, known

as China's "new normal". The concept supported a shift away from relying on manufacturing, exports and fixed asset investments for its domestic economy, and instead promote a consumption-driven and services-oriented economy.

In other words, the Chinese economy had already achieved its peak with double-digit growth rates from 2003 to 2007, when the average stood at 11.5%. From 1978 to 2013, China's average annual GDP growth rates had hovered at around 10%, a remarkable achievement in world history and unlikely to be imitated ever again in the future. The nation had more than one billion people becoming much more prosperous alongside rapid development that had surpassed the wildest expectations of the Deng Xiaoping who had originally introduced reforms and opening up in December 1978.

As the saying goes, "nothing good can last forever," and with the law of diminishing returns as an inescapable fact of life, China can no longer expect double-digit annual GDP growth rates forevermore. Additionally, a soaring economy would inevitably lead to surging inflation and higher labor and manufacturing costs. When Xi Jinping was sworn in as President of China in 2013, annual growth rates in the country had started to creep downwards, hitting the 6% to 7% range. Government statistics disclosed that the nation's GDP growth was 7.4% in the first three quarters of 2014.

In response, President Xi, the state-owned media, and other high-level officials were talking more and more about what they called the "new normal" which served as a publicity campaign urging Chinese citizens to remain cool-headed over lower economic growth rates and to anticipate double-digit growth to disappear. Nonetheless, a soft landing was preferable to a hard landing, so Beijing stood prepared. Xi had reportedly first used the phrase "new normal" when on an inspection tour in central China's Henan province, where sluggish growth had already begun to impact local communities.

Meanwhile, many Chinese had to make adjustments, while there were growing fears that high levels of public and household debt could cause a depression. In prior years, it was believed that super-high growth rates could keep many Chinese employed as companies would reap bigger

profits and expand their businesses. However, that was not sustainable development, since companies did not always make smart decisions and banks had also handed out loans that had gone into default.

That is why the free market functions in a cyclical manner with boom and bust patterns. Yet, the Chinese government would continue to play a large role in economic matters with Beijing’s support for socialism with Chinese characteristics. If the nation’s economy did heat up too fast, Beijing would take steps to set limits; and if there was a sudden and calamitous downturn, the Chinese government would not hesitate to rush to the rescue even if that included huge bailout packages and enforcing stringent rules to punish speculators. When the Shanghai Stock Exchange was crashing in July 2015, the PBOC poured in cash to buy stocks in order to prevent the financial crisis from spreading further.

Detractors of Xi issued criticisms that he tended to intervene too much on economic activities in the country and had failed to shut down unprofitable SOEs, as well as imposing overly-strict business regulations, setting harsh measures on capital outflows, while BRI projects overseas produced disappointing results. Beijing had not succeeded as much as it had wished in welcoming new allies to side with them during trade talks with Washington and the “new normal” could be perceived as code words to describe China’s “new slowdown.”

Nevertheless, Xi had lost chances to maintain high growth rates for the Chinese economy and hence quality growth would have to take precedence over sky-high growth rates. During the APEC summit hosted by Beijing in 2014, Xi delivered a keynote address at the forum to explain China’s new phase in development, highlights of which were reported in *The China Daily*. Xi announced that the domestic economy would shift gears from high-speed to mid-speed growth patterns. The nation’s economic structure would be improved and upgraded while setting the stage for an innovations-driven economy in all sectors. Xi vowed to streamline government red tape, making it easier for entrepreneurs to launch companies and start-ups with much easier and faster registration procedures. The new reforms have already delivered significant results — from 2015 to 2017, an average of 11,000 new enterprises were founded and fully-registered each day.

Meanwhile, China was forecast to have over 400 million people join the middle class by 2020, which means annual household incomes at \$10,000 or higher. As of the end of 2017, China's per capita GDP stood at \$7,329. It was expected that by 2025, China's per capita income could reach the all-important \$10,000 level, but historically when developing countries reach that target, they fall into what is known as the "middle-income trap," when families place top priority on education for their children, hoping their offspring can work in white-collar fields, such as becoming doctors, civil servants, academics, or successful business people.

Many parents aspire for their children to have very successful careers as adults and they would frown upon them gaining employment in the manufacturing sector, working as laborers in factories, janitors, or garbage collectors. One should expect Chinese families to fall into the middle-income trap as well, but the nation has a major advantage. Many Chinese can still move out of the cities and return to their rural hometown villages where the cost of living is lower and where there are more opportunities to invest their savings in starting new businesses. Accordingly, Beijing had embraced a resurgent "go west" policy that encourages hundreds of millions of Chinese migrants currently working in low-skilled and low-paying jobs in China's coastal, southern and eastern cities to go back home. Chinese Premier Li Keqiang is leading the initiative at the central government level to boost prosperity in China's western regions. As reported by CCTV.com's *Panview*:

According to the website of China's Foreign Ministry, China's western region covers the provinces — Shaanxi, Gansu, Qinghai, Sichuan, Yunnan and Guizhou, as well as the Autonomous Regions of Ningxia, Xinjiang and Tibet. Western China accounts for 56% of total land, but less than 1/4 of the nation's population resides there.

However over 50% of all mineral resources can be found in Western China and plenty of energy, such as oil and natural gas reserves are still underground, especially in Sichuan Province and Xinjiang Autonomous Region. Building more power plants and adding to the transmission grid can spark the rejuvenation of Western China.

For investors, the region holds big market potential with strong labor power, abundant natural resources and low investment costs. Yet, logistics had been a

challenge in past. But nowadays, Beijing has constructed more infrastructure, including new roads, highways, bridges, railways and airports to make transporting goods more efficient and faster.¹

Therefore, China’s western inland regions could help the Chinese to avoid the pitfalls of the middle-income trap. Additionally, there is an urgent need for more infrastructure development in the vast landscapes of the region. But in eastern China, which has wealthier residents, many Chinese living in first- and second-tier cities and those who are part of the middle-class aspire for better living standards. Consequently, more middle-class Chinese are willing to pay higher prices for branded and higher-quality goods as they have rising concerns over the safety of food and health and beauty products. When it comes to their well-being, many middle-class Chinese preferred to purchase imported items if there is a risk to personal or family safety.

For example, a baby milk scandal shocked the nation in 2008 when six children died and 300,000 others fell ill from Chinese infant milk formula laced with melamine. The tainted milk had ended up in a popular China brand, Sanlu. In another instance four years earlier, over a dozen children in the southwestern Chinese of Chongqing died from malnutrition when they were fed Chinese infant formula that appeared to have no nutrients added to it.

A number of other cases in China related to food poisoning at schools, restaurants and packaged food products on sale at Chinese supermarkets have made the Chinese very wary about food safety, while the same could be said for drug safety. In July 2018, *Xinhua News* reported that one of the nation’s leading pharmaceutical companies, Changsheng Biotech, was found to have falsified inspection records and documents, leading to suspicions that many vaccines for children were ineffective, particularly a rabies vaccine, and a number of children in China’s rural regions died shortly after taking some vaccines. The news shocked not only China but the world since it demonstrated that

¹CCTV.com, “Western China sees continued progress on reform and opening up”, <http://english.cctv.com/2018/09/14/ARTIrNveaB7NRPpPpNK60Zai180914.shtml> (September 14, 2018).

a number of well-known Chinese companies had taken shortcuts over food and drug safety to cut operational costs, even at the risk of innocent children dying.

President Xi stepped up enforcement of inspections led by the China Food and Drug Administration, and starting in March 2018, the agency had merged with the State Administration of Market Supervision working under China's Cabinet — the State Council. Efforts were already underway for the new agency to improve training standards for inspectors and lab technicians in order for food and drug safety to meet the high standards that you would expect to see in the US, EU and Japan. Furthermore, China's central government has continued to implement new measures to ensure stronger building code standards would be met, as well as cracking down on merchants selling counterfeit, shoddy or dangerous goods, while taking other necessary steps to prevent man-made disasters from occurring, such as buildings collapsing, people getting exposed to hazardous chemicals and, most of all, keeping the nation's food and drugs safe and effective.

Chinese citizens from all classes, whether rich or poor, should be able to expect that the products and services sold to them at the marketplace meet high standards of safety and care. And in doing so, Chinese mothers would no longer have to fear that they might be poisoning their children with contaminated infant milk formula. But Beijing will have to change attitudes, since many Chinese consumers have remained fearful that corruption will continue to plague the nation's consumer products and food and drugs safety inspectors.

US importers that sell food and drugs, along with beauty, skincare and bathing products could take advantage of the uncertainties expressed by Chinese consumers by selling high-quality goods that have been inspected by the US Food and Drug Administration (FDA) before passing through US Customs for delivery overseas to China.

In the meantime, China has had to tackle another challenge that has drawn widespread concerns from the Chinese and many other countries. Amid the nation's rapid development from 1978 to 2013,

hundreds of millions of Chinese had become wealthier, but rampant pollution was choking the lives of its citizens. When Xi was sworn in as China's President, he vowed to support a sustainable mode of development and to make China a more eco-friendly nation.

Greening of China

At the turn of the 21st century, China's economy was prospering, but pollution had transformed it into a much smoggier nation. Meanwhile, a new annual pattern was emerging in the spring when seasonal weather changes led to strong winds blowing in from the deserts and plains of western China, bringing massive sandstorms filled with hazardous chemicals from factories and vehicle exhaust emissions. These winds swept across China and blew over the Korean peninsula, Japan and to other countries. The pollution and sandstorms have grown even more ominous, becoming significantly worse and more polluted with each passing year and posing a serious threat to people walking outside as they would inhale dangerous toxins. Pollution was no laughing matter by the time Xi became President in 2013.

Yet Beijing could not just shut down all high-polluting factories or coal plants nationwide as that would have harmed the domestic economy in the short term. Hence, gradual measures were implemented while the Chinese government sought deeper cooperation with the US, UN, EU and other regional governments to set up a framework for ushering in green reforms that would not destabilize China's economy. Overall, the strategy has taken a simple approach such as closing down high-polluting factories in the first- and second-tier cities of eastern and southern China, while encouraging them to re-open in isolated regions of western China. Another step has been imposing quota limits on vehicles sold in Chinese cities and enforcing rules that reduce passenger cars on the roads.

To promote the development of renewable energy for the transmission grid while cutting back on coal mining and closing down coal power plants, more clean-burning LNG has been purchased to heat homes and provide lights for households. Additionally, millions of trees

are being planted in China's deserts and plains. Accordingly, around 2014–2015, sandstorms were beginning to dissipate when blowing through eastern and northern China during the spring. Other green measures have proven very effective as well. The NGO Greenpeace, a well-respected organization that promotes ecology and green activism, has published an annual report on China's progress to reduce pollution, saying that:

After the launch of China's "war on pollution" and the National Air Quality Action Plan in 2013, eastern China has seen a dramatic improvement in air quality, driven above all by reductions in coal use and emissions of power plants and heavy industry factories. From 2013 to 2017, average PM2.5 levels fell 35% in the 74 cities across China for which data is available. Nationwide, about 160,000 premature deaths were avoided in 2017 due to the reduction in pollution.²

It is believed that Beijing's cooperation with the UN played a crucial role in helping the country reduce smog. In September 2015, Chinese President Xi Jinping attended the UN Sustainable Development Summit and pledged his support for China to earmark funding and take action to reach the UN's Sustainable Development Goals (SDGs) over the next 15 years. By working in partnership with the UN, Beijing could rely on the expertise of the world's leading experts on Green initiatives. Beijing also issued a full report in the 13th Five-Year Plan at the 4th Session of the National People's Congress (NPC) in Beijing on March 2016 declaring support for "innovations and coordination" on the nation's "green, open and shared development". Starting in 2016, the top priorities for the central government were listed as: to eradicate poverty; promote innovations development and industrialization in rural areas; improve public services, social justice, eco-protections; tackle climate change; boost

²Greenpeace, "PM.2.5 in Beijing down 54%, but nationwide air quality improvements slow as coal use increases", <http://www.greenpeace.org/eastasia/press/releases/climate-energy/2018/PM25-in-Beijing-down-54-nationwide-air-quality-improvements-slow-as-coal-use-increases/> (January 11, 2018).

sustainable energy; and improve national governance, according to the UN website.

Beijing also agreed to work with officials from the WEF to pursue a Green China. When delivering a keynote address at the Davos Forum in January 2018, Xi vowed that China would reduce its coal consumption, introduce tougher environmental regulations, and offer more government subsidies to fund green initiatives. During the Davos Forum, Beijing launched an Environmental Risk Management Initiative procedure to be followed before granting approval on China’s major overseas investments. The BRI would have its own Green BRI, while allowing green projects — both public and public-private-partnership (PPP) — to issue green bonds guaranteed by the Chinese government and PBOC. China would also open up new Sustainable Development Zones in Shenzhen, Guilin and Taiyuan.

China’s high-tech firms were encouraged to invest in and develop more green technology upgrades and innovations. Alibaba Group, founder of China’s top-ranking e-commerce site Taobao, announced the Green Digital Finance Alliance that would integrate green finance with digital tech firms to coordinate with green start-up companies. Ant Financial, a finance and consumer credit subsidiary of Alibaba, has created the Ant Forest app which shows the carbon footprint tracking of each of Taobao’s 200 million registered users. The 2018 Davos Forum was a crucial turning point for the Chinese government to garner its international reputation as one of the leading nations championing the green movement.

President Xi has also spoken frequently about the necessity for China to support eco-friendly policies. He has shown his commitment by recognizing climate change as a human-made disaster that could lead to disastrous consequences if countries fail to lower carbon emissions. Accordingly, he played an instrumental role in recruiting many nations to sign up as participating member states of the UN Climate Change Pact that had been agreed upon in 2015, in which all signatories pledged to lower carbon emissions and to reach targeted goals. As the Chinese President, he did not just use empty words to

endorse the Green movement. He gave a speech at a study session of the Political Bureau of the 18th CPC Central Committee and is quoted as saying that:

We must strike a balance between economic growth and environmental protection, and bear in mind that protecting the environment equates to protecting productivity and that improving the environment also equates to developing productivity. We will be more conscientious in promoting green, circular, and low carbon development. We will never again seek economic growth at the cost of the environment ...

Resource conservation is a fundamental way to protect the environment. We will conserve resources and use them efficiently, bring about a fundamental change in the way resources are utilized, increase conservation efforts in all respects, and drastically reduce the consumption of energy, water and land resources per unit of GDP. We will vigorously develop a circular economy to reduce waste in the process of production, distribution and consumption.³

While talking about environmental protections, Xi made constant references to a so-called circular economy, but what is that? According to the Ellen Macarthur Foundation, China and the EU had signed a MOU to collaborate on the global integration of a circular economy. The circular economy was expected to pave the way to tap into new sources of economic growth and innovations that would benefit the environment and society at large. The emphasis would be for inducing major metropolitan cities to become more livable by reducing overcrowding and cutting down huge traffic jams. As stated by the foundation's press release:

China's current development favours a circular economy, including substantial investments in renewable energy, rapid development of digital technologies, and a boom in asset-sharing platforms. Pioneering Chinese companies and initiatives are actively embracing a circular economy approach. The MoU is expected to set the scene for greater sharing with European counterparts of best practices already in place in China, and vice versa.

³Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 231.

This historic agreement could pave the way for China and the EU to align key mechanisms, and potentially create the building blocks for product standards and policies, which can enable an effective circular economy, for example in the area of plastics. Indeed, plastics has been a recent policy priority for both China and the EU, as the focus of the EU’s circular economy agenda in 2017, and covered by China’s foreign waste import ban in 2017.⁴

As reported by Xinhua in December 2017, Beijing had coordinated with the UN Environment Program (UNEP) in order to raise public awareness in China as well as worldwide to implement green development. The UNEP issued a report *Green Industrial Policy: Concepts, Policies and Countries’ Experiences* that explained the benefits of the green circular economy, which could also boost productivity among the workforce. For example, Beijing has launched a project to electrify road transportation. Meanwhile, Chinese companies have also signed tech-sharing agreements with global investors that would boost renewable energy as a significant source of China’s energy supply, while also promoting the usage of electric vehicle (EV) buses for public transportation, increasing solar energy production and encouraging a sharing economy. During the Obama administration, Beijing and Washington developed closer ties by working together on green policies.

Both Obama and Xi had strongly endorsed the UN agenda for eco-friendly sustainable development. Nevertheless, Trump’s entrance into the White House altered globalist policies over such concerns. President Trump announced that the US would formally withdraw its participation in the UN Climate Change Pact on June 1, 2017, while also voicing his suspicions that environmental scientists could have rigged the numbers on the world temperatures in order to frighten governments into supporting action plans on climate change. Many governments had heavily subsidized green companies if they claimed their projects could reduce the temperatures from rising in the future. During his bid for the White House, during his first debate with

⁴Ellen MacArthur Foundation, “New report highlights opportunities for China’s cities to lead global circular transition”, <https://www.ellenmacarthurfoundation.org/publications/chinareport> (September 20, 2018).

Hillary Clinton, Trump had even inferred that climate change was a “scam” hatched by the Chinese government to persuade Western governments to finance the nation’s green firms.

Trump and Xi held vastly different viewpoints over environmental matters. Xi had taken the opportunity to push China to the forefront and demonstrate Beijing’s capabilities as a leader in world affairs by promoting green values on the world stage. Xi declared that China would become the recognized world leader of an “ecological civilization”, “green development”, and even “eco-Marxism” with Chinese characteristics,” as reported by China.org.

The strategy would induce green growth through innovations and embark on smart city development, where cities connect renewable energy to local transmission grids, and high-tech systems would get set up to lower energy consumption. The enhancement of green architecture would improve energy efficiency and cut electricity costs for homes and buildings. Beijing also launched other pilot projects, such as constructing new economic zones that forbade the use of coal and fossil fuels to provide electricity for households and businesses. A new city, Xiongan New Area, a satellite town of Beijing and Tianjin in Hebei Province, was designated a “New Sustainable City.” Plans were first announced on April 2017 with construction expected to be completed by 2035. Planners intend for solar energy to provide for over 50% of energy consumption in the new city.

China’s central government deemed Xiongan New Area as a model for urban-rural development, as reported by *PV Magazine*. Local population density would be limited to 10,000 people per square kilometer. City planners hope the new city will become a regional hub for innovative technology firms in the IT, biotechnology and green agriculture sectors. An important factor to note is that Chinese officials are placing renewed interest on solar energy since they expected it to surpass wind energy as the largest source for renewable energy in the nation.

As of the end of 2017, total photovoltaic (PV) capacity of solar energy had hit 130.25 gigawatts (GW) nationwide. Beijing is targeting 250 GW of PV by 2020, according to figures cited by China’s National Energy Administration. Apparently, President Xi is transforming

China into becoming the largest supplier of renewable energy for the world by guiding environmental policy. That is an amazing achievement in the few short years since Xi was appointed as China’s leader.

The top priority for the country continues to be spurring economic growth and adapting to changes to ensure the nation remains a key driver of international economic growth. And for China to succeed in the years ahead while its companies shift away from a manufacturing-based and exports-driven economy, Beijing believes that innovation will play a more crucial role, meaning that the Chinese must embrace a spirit of entrepreneurship.

Sparking an Entrepreneurial Spirit

Amid US–China trade talks, President Trump had issued no public criticisms about China’s pollution and had not asked the country to cut back on its carbon emissions. Trump is not an environmentalist and thought like a businessman. As a supporter of “America First” policies, China’s smog was not of any concern to him. The Trump administration and White House trade officials, when addressing green topics with China, merely noted that Beijing had subsidized companies that were manufacturing parts connected to the wind and solar sectors, and such products were sold in US markets at lower prices than their American competitors could sell them for. Issues had arisen that Chinese companies were allegedly stealing confidential technical information from US green companies, copying the blueprints and making copycat products that could be sold cheaply. Hence, many Chinese green companies that had received government subsidies were scoring huge profits exporting overseas, which was unfair.

The Chinese government insisted that rogue companies in their country were engaging in unethical behavior and Beijing did not condone it. From a logical standpoint, the argument did seem accurate, but the real truth was that China should have made more efforts to lower its funding of SOEs and encourage private companies, which do not receive public subsidies, to play a larger role in the Chinese economy. In all likelihood, US–China trade talks will just accelerate the

pace of privatization in the nation, allowing Chinese entrepreneurs to gain more freedom to conduct their business affairs with less regulatory interference. They will be able to compete on a fair playground since more SOEs will be required to operate with less government funding, and they will not be able to rely on officials to protect them if they go bankrupt. As a matter of fact, China's remarkable economic rise from 2000 to the days of the Trump White House could be attributed to the nation's rising entrepreneurial spirit and the amazing success stories of a growing number of Chinese private firms.

As reported by *Forbes* magazine in 2000, the ratio of SOEs to private companies in China stood at 50/50 in total GDP values. But as of the end of 2013, SOEs had only seen a six-fold increase in revenues generation, while private firms saw an 18-fold increase. When it comes to profits the figures were even more startling: a seven-fold increase for SOEs but a 23-fold increase for private companies. Chinese entrepreneurs have enjoyed much greater success from 2013 to 2018. Premier Li had taken charge of nationwide campaigns to promote "mass entrepreneurship and innovation." Accordingly, many Chinese private companies had focused their energies on developing Internet Plus, Internet of things (IoT) and other growth strategies. China's IT sectors had continued to witness rapid growth in their fields. By reviewing a listing of China's most successful entrepreneurs, one would discover that those who tapped into IT businesses had proven to be hugely successful. According to *Investopedia*, the top 10 richest Chinese entrepreneurs in 2018 were as follows:

- Liu Chuanzhi — founder of Lenovo, worth \$9 billion;
- Liu Qiangdong — founder of JD.com, worth \$6.5 billion;
- Lei Jun — founder of Xiaomi, worth \$14 billion;
- Wang Wenyin — chairman and founder of Amer International Group, metals and mining, worth \$11.3 billion;
- Zhong Qinghou — founder of Hangzhou Wahaha Group, bottled water and tea, worth \$8.8 billion;
- Li Hejun — founder and chairman of Hanergy Holdings Group, renewable energy, worth \$1 billion;

- Wang Jianlin — owner of Dalian Wanda Group, property developer, worth \$28.1 billion;
- Ma Huateng (Pony Ma) — founder of Tencent (WeChat), worth \$36.5 billion;
- Li Yanhong (Robin Li) — chairman and founder of Baidu Inc., worth \$12.8 billion;
- Ma Yun (Jack Ma), founder of Alibaba Group, worth \$37 billion.⁵

The figures calculated were as of October 17, 2018. Entering into 2019, China’s top 10 entrepreneurs probably have seen their fortunes rise in valuations, but perhaps with a few exceptions. The nation’s top three powerhouse companies are referred to as “BAT” — Baidu Inc., Alibaba Group and Tencent Holdings. Baidu is considered to be the Chinese version of Google, based in Shenzhen, that invested heavily into the research and development (R&D) of artificial intelligence (AI), Big Data, robotics, IoT, APP translations and smart technologies. Hangzhou-based Alibaba had captured the world’s attention as an e-commerce giant challenging Seattle-based Amazon Corp to become the world’s largest e-commerce retailer.

Meanwhile, Shenzhen-based Tencent, developer of WeChat, China’s version of Whatsapp, laid claim to nearly one billion frequent users, mainly Chinese but with increasing numbers from around the world. Beijing’s support for innovation could transform the nation’s economy with BAT leading the way. As China shifted away from an exports-driven to a consumer-driven economy, Alibaba and JD.com could entice more Chinese consumers to purchase high quality US-based consumer products online. WeChat was the prime channel for Chinese entrepreneurs starting businesses. They could market their products and services via WeChat Moments and WeChat Groups. Moreover, WeChat Pay made it so much easier for users to make payments on a digital platform.

⁵Investopedia, “10 Influential Chinese entrepreneurs”, <https://www.investopedia.com/articles/personal-finance/020415/top-10-chinese-entrepreneurs.asp> (October 17, 2018).

As China's labor costs continued to rise, Baidu was developing industrial robots to serve as a replacements for human laborers.

Beijing's drive to promote an entrepreneurial spirit in the country has offered plenty of win-win benefits. Since the US–China trade talks, Beijing has given further incentives by cutting subsidies to SOEs, which means China stands poised to upgrade their high-tech innovations, making Chinese private firms much more successful.

Beijing also sponsored forums nationwide and around the world to announce their intentions to promote entrepreneurship in China. Chinese private firms had emerged as the main drivers of growth for the domestic economy and would continue to do so for the foreseeable future. The days of SOEs holding primary influence over the country appeared to be waning. Although, the Chinese government and state companies would still employ hundreds of millions of Chinese, private companies were generating larger revenues and could hire more employees by offering higher salaries. Many young and talented Chinese no longer aspired to work in government jobs after graduating from university even though such jobs would provide more stability in their professional careers. This was because although the jobs were stable, there were limited promotion opportunities. Employees could not demand superstar salaries no matter how successful their performance in the workplace.

If a Chinese person wished to amass a huge fortune, they had to be willing to take risks, and that could mean failures. People had more freedom when starting a business, but if they lacked good management skills or took unnecessary risks, they could go bankrupt, no matter how academically brilliant they were or even if they had bright ideas. Fortunately, Chinese universities were getting more proactive in teaching courses for aspiring student entrepreneurs, while China's graduate business schools had expanded their courses teaching how to launch start-up firms.

The Chinese government and institutes of higher learning were addressing “face” issues as well since, in Chinese culture, a person who failed would be deemed to have lost face. But without risks and failures, a culture of innovation could not succeed. Many successful business

people had made disastrous decisions that nearly destroyed their careers, but after failing they would pick up the pieces and start over, learning from their mistakes. Donald Trump, before entering the White House, had declared bankruptcy on six different occasions during his illustrious career as a property developer based in New York.

According to *China Daily*, the Ministry of Education (MoE) had disclosed that more than 80% of all Chinese colleges and universities were introducing classes on entrepreneurship and innovation. The nation's leading universities had set aside substantial budgets to provide such programs on the curriculum. Xinhua reported that the programs had delivered positive results to China's economy. MyCOS Research and CASS published a report in September 2017 disclosing that the number of students starting a business immediately after graduation had risen from 1.6% in 2011 to 3% in 2017. That equated to more than 200,000 out of 7.95 million college graduates in 2017 declaring themselves to be entrepreneurs. They had mainly opened up new firms in the IT sector since the China College Students' Internet Plus Innovation and Entrepreneurship Competition has been held for three consecutive years and its popularity is growing fast. More than 1.5 million students from 2,241 universities and colleges took part in 2017, as reported by Xinhua. Chinese schools have also used novel approaches to encourage students to become entrepreneurs as well.

At Xidian University in northwest China's Shaanxi Province, Zheng Xiaojing, the school's president, believes that innovation and learning how to start a business must be integrated into the school's entire curriculum. The campus has opened up safe spaces for aspiring entrepreneurs where they can put their unique business ideas into practice. Students are encouraged to participate in entrepreneurship and innovation projects, to publish related academic papers, and to enter contests that are included in the university's credit point system.

China's MoE issued guidelines in 2016 that required teachers to upgrade their teaching methods, to utilize their research in new product lines, and to consider starting up their own businesses. As of the end of 2016, more than 26,000 full-time professors were teaching coursework in related fields, while over 76,000 part-time teaching

assistants and researchers were engaged in such subjects. China's academia also opened up 19 incubators nationwide between 2015 and 2017 to serve as bases for entrepreneurs and innovators to test their experiments on campus. Beijing's Tsinghua University's iCenter had over 3,000 students enrolled in the project in 2017. Sichuan University in southwest China has taken it a step further by collaborating with a local bank that would issue loans to entrepreneurial students.

Sichuan University has also raised a risk compensation fund valued at over \$1.8 billion. China's leading science and high-tech parks have also collaborated with Chinese universities to promote student entrepreneurship. Apparently, Beijing has recognized that innovation and business start-ups should be closely linked, while academia and government continue to play large roles in the fields. The Trump administration has issued complaints about such practices, but America, when developing its science and technology in the past few decades, had committed to the same practices. Just take a look at the National Aeronautics and Space Administration (NASA). The space agency had achieved remarkable results in developing new technologies that were later utilized for military and civilian purposes. NASA could not have existed without the strong support from US universities, government and private firms. Hence, Washington would be acting hypocritically in rebuking Beijing for opening up "Made in China" science and high-tech parks that encourage strong collaboration among government, universities, fin-tech investors, and banks.

Lee Kaifu is the founder of Sinovation Ventures and author of the book, *AI Superpowers, Silicon Valley and New World Order*. He received his PhD in computer science from Carnegie Mellon University, specializing in AI. He has held senior executive positions at Apple, Microsoft and Google. He spoke to *New York Magazine*⁶ to explain Beijing's efforts to support entrepreneurship and noted that all major Chinese cities have set up budgets to subsidize start-up firms by tying them to poverty alleviation programs. The central government has advised cities

⁶New York Magazine, "What motivates China's entrepreneurs? An interview with Kaifu Lee", <http://nymag.com/developing/2018/10/kai-fu-lee-scott-malcomson-chinese-entrepreneurship-global-tech.html> (October 10, 2018).

to open incubators, and there are over 8,000 currently in operation nationwide. China’s new role models are Jack Ma, Pony Ma and Robin Li, who are the leaders of BAT. But most importantly, Chinese culture has embraced failure as an option. Just take a closer look at the life of Jack Ma and his earlier business failures before he succeeded as the e-commerce emperor of Taobao, and one will realize that the Chinese have adapted to and no longer fear failure as a loss of face.

Yet, the key for China to resolve US–China trade tensions is to find ways to lower US–China trade deficits. That would make President Trump happy and content, which could mean he would overlook other matters of concern while he and Xi had continue with negotiations. Restoring equilibrium on US–China trade activities can only be accomplished with increased consumption on the Chinese side, and for them to purchase more “made in America” goods.

Shift to Consumption

Shortly after Trump won his bid for the White House and before his inauguration, he was preparing his transition team while ensconced at the gilded offices of Trump Towers in mid-town Manhattan. Jack Ma paid him a surprise visit on January 6, 2017. At the time, Ma felt optimistic that the two countries could avoid the onset of trade wars and had pledged to help American companies set up online shops on Tabao, which could boost US imports to China and would likely result in the creation of one million jobs based in the US. The concept sounded practical and, if successful, would have eased bilateral trade tensions immensely.

Back then, Ma, as full-fledged member of the CPC, was considered the right spokesman for Beijing to show compromise over trade issues. *USA Today* quoted Trump’s Twitter feed as saying that he had a “great meeting” with Ma, calling him a “great entrepreneur, one of the best in the world. He loves this country, and he also loves China. Jack and I are going to do some great things.”⁷ Ironically, Alibaba had sought to promote US agri-

⁷USA Today, “Donald Trump: ‘Great meeting’ with Alibaba’s Jack Ma”, <https://www.usatoday.com/story/tech/news/2017/01/09/donald-trump-meet-alibabas-jack-ma/96345262/> (January 9, 2017).

cultural products, but shortly after Trump announced higher tariffs on Chinese imports, the first response from China's Ministry of Commerce was to block American-grown soybean shipments and make further threats to ban other US agriculture goods. The ensuing turmoil caused Ma to backtrack on his prior promise to create one million new American jobs. The incident did show promising signs, nonetheless. Trump had expressed much enthusiasm to meet Ma and had shown a sincere willingness to work with Chinese companies to help them increase US exports to China that would have benefited both American suppliers and Chinese retailers. But the "great" Trump–Ma meeting had also underscored the deep rift between Beijing and Washington.

Although, Ma appeared to be a persuasive emissary on behalf of the Chinese government, he was still an odd selection to serve as Beijing's peace messenger over trade wars.

Alibaba Group had been a major donor to the Clinton Foundation, sponsoring paid speeches for the Clintons when they had visited China. Teneo, a consultancy firm closely aligned with the Clinton Foundation had listed Alibaba as one of its premier clients in China on its corporate website.

Aside from the Jack Ma meeting debacle, Chinese consumers would be the crucial players to make US–China trade talks either a resounding success story or an overwhelming fiasco. The primary reason Trump had demanded tougher measures against Beijing was to establish a more equitable trade balance. It would be unreasonable for China to accumulate hundreds of millions of US dollars in trade surpluses with the US and never expect Washington to retaliate. That was wishful thinking. The day of reckoning had come when Trump first entered the White House as President.

If Chinese consumers demonstrated more eagerness to purchase American goods, that would have been instrumental not only in boosting the US economy, but also helping China's shift to a consumer-driven society that would have led the country to first-world status, just like Japan, the US and western European countries.

Bain & Co., a global management consultancy firm, had published a report, *China Renews Commitment to Quality of Growth*, addressing

how foreign-based companies could tap into China’s ever-growing middle class by selling goods and services that could meet their demand. The consultancy firm highlighted another report posted by the WEF, *Future of Consumption in Fast-Growth Markets — China*, in which experts were forecasting that the fourth Industrial Revolution would be led by China, and the nation would transform into a world leader in innovation, high-tech, and entrepreneurship.

Bain and WEF both predicted China would become a major driver of consumption for the world by 2027, surpassing the US. China would also have the world’s largest middle class by then, if it had not already achieved that ranking as of the end of 2018. Economic experts were forecasting that from 2016 to 2027, China’s consumption was expected to rise 6.1% annually on average, and consumption would increase from 29 trillion yuan in 2016 to 56 trillion yuan in 2027.

If China’s economy continued to meet the expectations of domestic consumption forecasts up to the year 2027, that could result in 65% of all households in China being recognized as middle class. Meanwhile, Chinese consumers, even rural residents, have become more high-tech savvy, with around one billion Chinese owning a smartphone mobile device or having access to one as of the end of 2018. Many Chinese love to shop on the top two e-commerce sites in the country — Taobao and JD.com. But offline, brick-and-mortar shops still have room for growth in the China market. Although it is much more convenient and often cheaper to make purchases online, with same-day or one-day delivery for many in Chinese cities, offline stores still maintain appeal for consumers.

Shopping is a social experience. When not working or sleeping, many people do not like to feel isolated in their homes. They may face traffic jams when driving to a huge department store and feel annoyed by pushing crowds, but that is still an opportunity for them to interact with the outside world during their leisure moments. But when e-commerce had started to become a more popular trend in the country, many retailers had failed to adapt, and that had led to the wave of so-called ghost malls popping up all over the country. Property developers had built huge complexes of department stores with many shops,

including foreign brands, but they were boring places to visit and were selling most of the items at high prices. Soon enough, few shoppers would bother to visit them.

Nonetheless, retailers learned from their mistakes and developed new malls that would cater to the changing requirements of Chinese consumers. Wang Jianlin, chairman of Dalian Wanda Group, has made aggressive efforts to open huge department store complexes known as Wanda Plazas at many locations across the country. Each complex has the look and feel of a mall, but they have added special features, such as hosting many public events and entertainment shows, including inviting Chinese pop stars to go on stage to sing, or act as judges in amateur singing contests.

Additionally, many restaurants are located there. Wanda Plaza is not just a place for shopping, but a place where busy people and their families find entertainment and fine dining, or sign their children up for art classes, scholastic programs and so much more. Unless a person was a hermit, he would not want to live alone or shut himself off from the public.

And here is where US exporters could tap into the hearts of Chinese consumers. Hollywood is still the global leader in the film industry. The Chinese are eager to go to the movie theater, and their favorite films are not only Chinese movies but also Hollywood films. In 2018, action movies remained highly popular and companies such as Marvel did an amazing job marketing toys, clothing and accessories of superstar action heroes like Superman, Spider-man, Captain America, among others. Children, young and old, are much enamored with Marvel's comic book heroes. Another popular fashion trend that has become more noticeable as of the end of 2018 appeared to be related to Major League baseball.

By walking the streets of Beijing, one can observe a large number of Chinese, mainly teenagers and young adults, wearing New York Yankees' baseball caps, jackets and shirts. Apparently, the baseball team has been very effective in marketing its paraphernalia, authentic and counterfeit, to Chinese consumers. One can imagine that if Xi and Trump do sign a bilateral trade agreement, Chinese consumers will be eager to embrace US imports, especially famous brands.

However, US exporters to China should learn more about WeChat as a tool for marketing in the country. WeChat also sells big data analytical reports that track consumption patterns of its users. Nearly all daily WeChat users have opened WeChat Pay accounts to make digital payments and to pay their bills. Any time there is a money exchange transaction, that immediately gets captured in a database that crunches statistics of consumption activities in real time. Hence, one might discover that Yankees' baseball caps are popular in Beijing and Shanghai, but perhaps not so in Shenzhen and Chongqing. By understanding the trends, manufacturers of consumer goods and Chinese retailers will be better able to organize logistics and deliveries of items to stores where they are sold out fast, and cancel shipments to stores where they have very few customers.

Marketing firms could look into big data reports to understand why certain goods for sale are popular and other products are not, and in what regions they are popular or unpopular. For WeChat users, the app is free for them when making digital payments, sharing files and photos, marketing themselves on WeChat Moments, setting up groups and to selling items online. Tencent Holdings, just like Facebook, generates revenues with its big data reports, giving companies access to user information. It is true that WeChat users are placing their personal information at risk, but the same can be said for Facebook users and all others who sign up for US-based social media sites.

Another factor that keeps consumption levels relatively low in China is the high savings rates among Chinese households. Many Chinese have been raised to spend wisely and to avoid excessive shopping while avoiding debts at all costs. According to traditional customs, Chinese young adults are expected to get married after graduation, and if they are the groom-to-be, they have to buy a home and furniture, pay for the wedding ceremony and give a large dowry to the parents-in-law. Total costs could come to around 200,000 yuan or higher in rural villages, and much higher for weddings in Chinese cities. In many instances, the groom and his family have to help raise funds to pay for the costs.

Young single Chinese men also face added burdens since the ratio of men to women has continued to widen, which could result in tens of

millions of Chinese adult males living in involuntary solitude unless they marry a bride from outside the country. This cultural trap also explains why the Chinese have much incentive to save money. Chinese males must save huge sums of money for an impending marriage. Therefore, even when Beijing has opened up its capital and credit markets to US-based firms, American companies need to have a deeper understanding of Chinese culture.

The Chinese government has already enforced new policies to punish spendthrifts in the country, especially those who fail to make timely payments on their credit cards and loans. It is called the social credit system, and if a Chinese citizen is found guilty of unpaid parking fines and speeding, defaulting on debts, or committing crimes, these incidents are all noted in their public records, and they could be barred from purchasing train or airplane tickets. According to the *Global Times*:

The notice orders government agencies to find dishonest actors and require them to sign a pledge of honesty within 15 days and rectify their behavior before a given deadline. Those who refuse to comply will be entered into the publicly accessible national social credit blacklist website “Credit China” and another blacklist kept by the MOT, among others.

“A social credit system is indispensable for any modern government. China is using technology to build our credit system, and improved data sharing among departments is making it possible to apply it to new industries,” Zhu Lijia, a professor of public management at the Chinese Academy of Governance, told the *Global Times* on Monday.

The government said that it would carry out big data mining, expanding credit service application scenarios, and to provide diversified and customized credit products to government departments, companies, social organizations and individuals.⁸

Accordingly, even if China promotes increased consumption, do not expect the Chinese to spend like many Americans do. US consumers

⁸Global Times, “More than 6,000 Chinese banned from taking trains, planes in H2 2018: Report”, <http://www.globaltimes.cn/content/1117314.shtml> (January 13, 2019).

have earned notoriety as big spenders, amassing huge household debt. Easy access to credit cards for US citizens has led to excessive spending habits and Beijing, witnessing those actions, does not wish for a repeat performance in their country. US exporters selling goods to China can succeed, but US-based credit card companies are unlikely to receive preferential treatment from Chinese regulators.

Here are some developing trends that US firms should become more aware of. China’s increasing middle class means that families are paying more money for their child’s education, but birth rates have stayed very low. The country’s population of the elderly and retired will rise higher and higher. By 2020, the elderly will account for at least 22% of China’s population. Look for those numbers to surge even higher in the years and decades after that since young families are legally allowed to have no more than two children. Even if population limits were scrapped, many young Chinese families are not interested in having three or more children. Therefore, with an aging population, companies in the healthcare and senior care sectors could capture many business opportunities here.

As China’s demographic keeps aging, the country is hitting a sharp curve in which its economy will not witness rapid development and sky-high growth rates in its long-term future, which explains why Beijing has continued to talk about the “new normal”. Meanwhile, the US economy has endured slow growth rates ever since the 2008 financial crisis. But with Trump in the White House, the nation’s economy is beginning to rebound and that will have a large impact on the outcome of US–China trade talks.

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Chapter 9

Trump-a-nomics Surges Ahead

Make America great again, that's what's happening. We're bringing back our pride, we're bringing back our jobs, we're bringing back our wealth, and for the citizens of this great land we're bringing back our beautiful American dreams.

US President Donald J. Trump talking about passage of
Tax Cuts and Jobs Act, one year later.

Everyone knows the U.S. economy shouldn't be so reliant on consumption. More investments should be made.

Lou Jiwei, CEO of China Investment Corp.

People do not understand what a great revenue economy is.

Cicero, a Roman orator.

Cutting Red Tape and Taxes

As mentioned earlier, President Trump had supported tax cuts and signed executive orders to reduce regulation of American businesses in 2017 before announcing tariff hikes on Chinese imports in 2018. Let us review the time line: US Congress and the Senate passed the Tax Cuts and Jobs Act (TCJA) which Trump signed into law on December 22, 2017. After a year of bitter partisan and intra-party wrangling even with a GOP majority in both Houses, the bill in US Congress passed with a majority of 224 in favor and 201 against, while in the Senate, it passed with a slim 51 to 48 majority. Not a single Democrat lawmaker on Capitol Hill had supported the TCJA. The tax cuts, hailed as one of the largest in American history, lowered individual income tax rates,

doubled a number of standard deductions, and eliminated personal exemptions, according to *The Balance*.

Those listed in the top income tax bracket, earning an annual income of over \$500,000 as a single filer or \$600,000 as joint filer, had to pay the highest tax rate of 39.6% in 2017, but from 2018 to 2025, they would pay 37%. Overall, most US taxpayers were expected to pay lower tax rates, according to *The Balance*.

Meanwhile, the tax cuts were even more pronounced with regard to US corporate tax rates, which dropped from 35% to 21%. In the 12 months after implementation of the TCJA, over \$300 billion in US corporate profits had been repatriated from overseas and had flowed back into the US economy.

Chinese companies pouring FDI into the US could benefit from the tax cuts, but on account of the trade wars, Chinese enterprises were more reluctant to invest in the US market. In 2018, Chinese FDI had plunged to \$4.8 billion, a sharp decline from \$29 billion in 2017 and \$46 billion, according to Rhodium Group, an independent researcher.

Nonetheless, experts believed that in 2017, over \$1 trillion in US corporate capital was known to be outside the US tax jurisdiction. Proponents of the TCJA had argued that cutting corporate tax rates would result in US companies making more investments at home and spark expansion of the overall domestic economy. Instead US corporations such as Apple had taken the opportunity to conduct massive stock buybacks, which spurred the US stock markets to soar higher in the first half of 2018.

In other words, Wall Street banks and hedge fund investors had reaped bigger short-term gains from stock buybacks rather than Main Street firms, businesses recognized as small independent companies that are not publicly-owned by shareholders.

Additionally, the TCJA allowed for higher tax write-offs for deductions that would encourage companies to purchase business assets that included equipment, machinery and vehicles for corporate use while allowing accelerated depreciation that gave companies incentives to purchase new furniture and equipment for offices as

well. Such deductions can be itemized as write-offs for business purposes, but tax deductions for entertaining clients were eliminated, while business-related meals would only be 50% deductible, no longer 100%, starting in 2018.

Not everyone came out a winner with Trump's tax cuts. State and local tax (SALT) deductions were capped at \$10,000. In prior years, US residents living in states that assessed high rates on local property and state income taxes could deduct such tax payments against their Internal Revenues Service (IRS) bill, which meant wealthy people from high-tax states, including New York and California did not get hit with high taxes compounded at the federal, state and local levels.

However, beginning in 2018, those taxpayers can only deduct \$10,000 on SALT for the IRS. If they had wished for lower taxes, they should have encouraged their state and local governments to cut taxes, but many states with high local tax rates are controlled by Democrat governors and state legislatures and they demonstrated scant interest in cutting taxes anytime soon. Therefore, New Yorkers and Californians, among others who were required to pay higher taxes — federal, state and local — should not blame Trump for levying higher taxes. If they wanted lower taxes in their state of residence, they should have considered not voting for Democrats in local elections in order to spur new lawmakers to lower their tax bills.

The TCJA also provided an estate tax exemption for those receiving an inheritance, which doubled from \$11.2 million to \$22.4 million for couples, meaning that the deceased passing their estates to their beneficiaries can avoid huge tax bills. In addition, the child tax credit was increased from \$1,000 to \$2,000. And for many US households, according to National Public Radio (NPR), their average annual disposal income increased by \$2,100 on average, while many American workers received higher year-end bonuses entering into 2018. Hence, Trump enjoyed a glorious moment signing the TCJA at a White House ceremony. He was quoted as saying:

America finally has a tax system that is pro-jobs, pro-worker, pro-family, and pro-American.

Make America great again ... We're bringing back our pride, we're bringing back our jobs, we're bring back our wealth and for the citizens of this great land we're bring back our beautiful American dreams.¹

In the immediate aftermath of the signing of TCJA, over 100 utilities companies announced they had lowered prices and rates for their American customers. The Heritage Foundation, a conservative Washington-based think tank, highlighted key features of Trump's tax cuts that were expected to deliver positive benefits to American taxpayers. The average American received a \$1,400 tax cut in 2018 with tax reductions amounting to \$2,900 for a family of four under a joint filing. The Foundation for Economics Education (FEE), sponsored by the Heritage Foundation, launched a nationwide publicity campaign to educate US citizens on how Trump's tax cuts could set the stage for a boost in the US economy.

However, FEE was not 100% positive on the TCJA, noting that tax cuts were temporary and US Congress had to approve another Bill to extend it beyond 2025. Their preference was for the tax cuts to be permanent. Yet, they had made calculations and forecast that US households would receive an added \$26,000 in take-home pay in total up to 2025, while a family of four would see an increase of \$45,000 on average. Starting in 2018, American workers would see their paychecks jump a bit higher as withholding taxes had decreased. Despite claims made by US Representative Nancy Pelosi (California) who insisted that the tax cuts were "just crumbs,"² as quoted by the *Washington Times*, the American working poor would gain added advantages since \$2,100 would be added to their pocketbooks, accounting for a larger portion of their annual salaries compared with wealthy individuals. They could use it to pay off prior debts, to splurge on something, look

¹The White House, "Pro-growth, pro-jobs, pro-worker, pro-family, and pro-America", <https://www.whitehouse.gov/articles/pro-growth-pro-jobs-pro-worker-pro-family-pro-america/> (October 12, 2017).

²Washington Times, "Nancy Pelosi scoffs at 'crumb' bonuses by U.S. companies as a result of tax cuts", <https://www.washingtontimes.com/news/2018/jan/11/nancy-pelosi-scoffs-at-crumb-bonuses-by-us-compani/> (January 11, 2018).

into investments, or add to their savings accounts. More money was more money, and that was good, especially for people in the lower- and middle-income tax brackets.

But critics argued that Trump's tax cuts had increased US federal government deficits, which rose 17% in 2018. Nonetheless, the pace of deficit growth under the Obama administration era were also high, proving that whether a Republican or Democrat was the White House, deficit spending would continue to soar.

Now moving on to Trump's actions to reduce red tape. The Heritage Foundation published another report on October 17, 2018 to explain the benefits of Trump's deregulation efforts. For the first 22 months after Trump entered the White House, US firms saved over \$23 billion on account of 176 deregulatory actions President Trump signed, and that meant 65% fewer rules than Obama had issued in the same time frame when he had served in office.

In the 2018 fiscal year, Trump had taken 57 deregulatory actions but only added 14 new regulations, according to data reported by the US Office of Information and Regulatory Affairs. Accordingly, Trump had kept his campaign promise to cut out two regulations for every one new regulation that would be signed into the US Code of Federal Regulations. By reviewing the number of regulations imposed by prior US presidents — George W. Bush and Barack Obama — one can get a better comprehension of how Trump deserved credit as the nation's deregulation president.

Before Trump entered the White House, Obama instructed the federal government to implement over 1,500 new regulations, but they were not finalized. On Trump's first few days in office, he canceled all those requested regulations. Trump streamlined permits, making it quicker to launch infrastructure projects by cutting the time it took for officials to make environmental impact assessments. Trump also rolled back a series of environmental rules that accomplished nothing more than slowing down the construction of much-needed infrastructure for the nation.

President Obama had talked a lot about creating "shovel-ready jobs" during his administration with his huge stimulus packages, but instead,

environmental administrators were spending too much time doing paperwork and requesting eco-impact studies on all infrastructure projects, big or small. As a result, a number of years had passed before “shovel-ready jobs” were set to begin. By cutting the time between the government announcing a request for a new infrastructure project and the time a permit was granted, Trump was ensuring that those “shovel-ready jobs” would be available in just a few short years or even sooner. Additionally, Trump, on the campaign trail, had pledged to embark on a \$1 trillion “Rebuild America” plan that was expected to fix the nation’s ailing roads and bridges so the nation would have the best transport networks in the world.

Trump had issued a number of bold initiatives that required the US government to cut more red tape with his plans to boost prosperity and public safety for American minority groups and those living in poor neighborhoods. Trump had signed an Executive Order to establish the White House Opportunity and Revitalization Council³ to promote public and private investments (PPP) in economically distressed communities, according to a press release issued by the White House.

US Secretary of Housing and Urban Development, Ben Carson, would collaborate with 13 other federal agencies and set up Qualified Opportunity Zones (QOZ) where investors and residents of “economically distressed communities” could get better access to federal, state and local government resources. The initiative was intended “to boost opportunities that encourage entrepreneurship, create jobs, improve education” and to ensure safer communities overall. QOZs would receive the added benefits from the reducing of barriers to open new businesses, lowering costs and accelerating development timelines. The key strategic objectives were to build more infrastructure and support more property development in QOZs. And it seemed likely the White House had dreamed up this idea by witness-

³The White House, “Executive order on establishing the White House Opportunity and Revitalization Council”, <https://www.whitehouse.gov/presidential-actions/executive-order-establishing-white-house-opportunity-revitalization-council/> (December 12, 2018).

ing the amazing success stories of China's SEZs under the leadership of Deng Xiaoping.

The TCJA, along with support for the "Rebuild America" platform, the rollback on government regulations, and the development of QOZs offered plenty of hope for the American business community. Chinese companies should take special notice as well. If US–China trade talks do get resolved, the US would welcome more Chinese investments in the country and that could lead to more China-owned factories opening in economically-distressed areas, since they would enjoy preferential tax treatments and deeper support from the US government. But the real incentive for the Chinese to do more business in the US is very simple.

The US stands tall as the world's largest economy, and when US economic growth rates surge higher, American consumers will spend more, while greater opportunities abound for Chinese investors. They too can reap a whirlwind of prosperity from the US economy. Therefore, let us take a closer look at annual GDP rates in the US which started to rebound after Trump entered the White House.

US GDP Flies Higher

Before TCJA went into effect, the US annual GDP growth rate hit only 2.2% in 2017 with a cumulative total value striking \$19.49 billion as of December 31, 2017. This was not considered a major achievement since, in the same year, China had enjoyed 6.5% growth rate with a total value of \$12.24 billion. Meanwhile, the US economy surged higher in 2018. In the four quarters of 2018, the rates stood at 2.2%, 4.2%, 3.5%, and 2.6% respectively, with an annual rate of 2.9%, according to figures tabulated by the *US Bureau of Economic Analysis*.

During Obama's eight-year term as US President, the growth rate of 2.9% in 2015 was the highest. Hence, Trump, not Obama, deserves credit for boosting the economy in 2018. Perhaps if growth rates were higher in 2017 it could be argued that Obama paved the way for a rebound in the US economy but that did not appear to be the case. Nonetheless, Trump's declaration of trade wars by starting to raise tariffs

on Chinese imports in March 2018 had already sparked ominous trends in the US economy. The second quarter was the strongest for economic growth in the year, but when companies understood that Trump was not bluffing in regard to challenging China's trade actions, US manufacturers rushed in to fill up inventories in expectation that trade tensions could worsen. The results demonstrated that Trump could not narrow the US–China trade deficit in 2018 as the figures surged higher compared with the prior year.

US manufacturers and retailers increased orders for more Chinese imports, fearing that such goods would be priced out of the market by the end of the year if the two sides failed to achieve any resolution or compromise over a bilateral trade agreement. Therefore, the 4.2% jump in the growth rate for the second quarter was fleeting as the third-quarter growth slipped to 3.5%. US soybean farmers were hit hard by canceled orders on shipments to China, as well as scheduled deliveries of US LNG, which had a negative impact on the US economy. But China's actions resulted in higher prices for food in China, since soybeans are a staple food source there.

At that time, gas prices in the US had dropped significantly for drivers, which meant they had more spending money in their pockets, explaining the 5.1% rise in US consumer spending during the 2018 Christmas holiday season, with total spending reaching \$850 billion from November 1 to December 24 (Christmas Eve), according to sales reports tabulated by MasterCard.

Apparently, US companies were stockpiling inventories of Chinese imports, which had been a smart business decision since Christmas spending in the US hit higher-than-expected levels. As reported by CNBC, US inventories had increased to \$866 billion by the end of the third quarter, which had resulted in adding 2.27% to GDP growth. The strong headwinds faced by the US economy had led American workers to become the biggest winners, while job seekers had witnessed a higher number of job openings.

The National Federation of Independent Business (NFIB) said in a report released to the public in September 2018 that, in the US nationwide, there were 6.7 million reported job openings while 6.6 million

Americans were recognized as unemployed by the US Labor Bureau. US economic “expansion continues to be a priority for small businesses who show no signs of slowing (down) as they anticipate more sales and better business conditions,” CNBC quotes NFIB President Juanita Duggan as saying. US total GDP value had surged above \$20 trillion in first quarter 2018.

Another measure to judge economic growth rates is what is known as Gross Domestic Income (GDI), which is defined as “the sum of all income earned while producing goods and services within a nation’s borders,” according to *Investopedia*.⁴ The US Federal Reserve Bank uses this calculation, although less widely-known than GDP, which “gauges the economic activity of production.” *Investopedia* went on to add that “GDI is calculated as the total income payable in GDP income accounts.” Hence, GDP accounts for a nation’s production figures while GDI concerns itself with incomes generated from GDP.

The difference between GDP and GDI may seem insignificant except for economists, but it does portend future trends of the US economy. When an economy starts to rebound, the GDP growth rates could be higher than GDI. That is because companies will wait until they can generate more profits before hiring new employees and raising wages of current workers. But when GDP growth momentum stays strong, GDI growth rates are likely to rise higher. For example, US GDI growth for third quarter 2018 was calculated at 4% while, as mentioned earlier, GDP was 3.5%, so GDI was a better measure of economic activity. One could argue that the US growth rate for that time period was actually 3.8%, after averaging out the two figures.

In regard to the trade outlook for US and China, the GDI provides a better understanding of consumption trends. When people have higher incomes, they are more likely to spend more even though goods and services are being sold at above inflation rates. When US households have more optimism about the economy improving, that could

⁴Investopedia, “Gross Domestic Income — GDP”, <https://www.investopedia.com/terms/g/gdi.asp> (February 7, 2018).

boost consumption as well, which will lead to rising economic growth rates. Companies start to anticipate continued sales growth, so they continue expanding to keep pace with consumer spending.

What was more curious was that during the Trump administration, economic growth rates in rural areas rose faster than in the cities, as well as surpassing growth in the western and eastern coastal regions. But that should have been expected when one considers that Trump's strongest support base was voters living in America's heartland, where the agricultural and manufacturing sectors played more prominent roles in the regional markets there. The US economy was undergoing structural changes in which more money was flowing away from the Washington Beltway, Wall Street and Silicon Valley and capital flows were beginning to pour into the south, southwest, midwest and Rocky Mountains regions. America's small towns were enjoying more prosperous times. According to the NFIB, US rural areas had higher rates of growth than US cities for the first time since first quarter 2010.

Yet starting in third quarter 2018, US exports figures were dropping in worldwide markets, down 4.9% overall, while "Made in USA" final products had plunged 8.1% on the exports side, which also caused GDP growth rates to drop below 4%. China was not the only nation retaliating against Trump's protectionist measures. Before Canada and Mexico had agreed to a successful conclusion on renegotiating NAFTA with a formal signing of the USMCA trade pact at the Buenos Aires G20 Summit by Trump and his counterparts — Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña — Ottawa and Mexico City were making threats to oppose Trump.

The EU was claiming to be upset over higher tariff rates on steel and aluminum imports to the US and hence Brussels was warning they would retaliate against US imports. Although, Trump claimed "trade wars are easy to win," it appeared that he had either underestimated the challenges that lay ahead of him or he had sought for strong reactions as a long-term strategy, so nations would agree to "0% tariffs, 0% trade barriers." Oddly enough, when EU leaders were criticizing his trade actions, Trump requested such measures when he met them face-to-face during NATO talks in Europe in 2018, but sure enough, EU

member states that had often claimed their full endorsement of globalism refused Trump's offer. By taking a closer look at EU trade policies, one discovers that Brussels and its member states had often implemented trade protectionist measures against non-European markets while favoring subsidies for its favored firms and industries, particularly EU steel and aluminum manufacturers.

Consequently, the momentum was swinging towards Beijing's advantage over US–China trade talks. Trump had counted on more leverage with higher US GDP growth rates since he was predicting the nation's economy could achieve 5% or higher annual GDP growth rates in the near future, but that had begun to sound foolish by the latter half of 2018. US mid-term elections had also limited Trump's options since Democrats had seized control of US Congress. Had the US economy stayed strong, Trump could have persisted in raising tariffs against China without allowing for a truce, forcing a “winner takes all” gambit because Beijing would have had more to lose.

Nonetheless, Trump, as a top-notch businessman, understood that if the US economy faltered while there was no trade agreement on the table with Beijing, American voters would not support his 2020 re-election bid for the White House. Leading economists were already warning that the US economy was losing steam starting in the fourth quarter of 2018 with the Atlanta Federal Reserve forecasting GDP growth to fall below 3%, and final figure was reported at 2.9%. In late November, a few weeks before the US–China trade truce was announced, economists from Goldman Sachs, Bank of America, Merrill Lynch and J.P. Morgan had issued forecasts predicting US GDP would see a slowdown in 2019.

The reason given for slower growth rates was expectations that the US Federal Reserve would continue to raise interest rates, leading to higher borrowing costs not only for the US government but also US businesses taking out loans and consumers paying off credit card debts. Unless the Federal Reserve reverses course in 2019, US companies would be more reluctant to expand by assuming more corporate debt and there could be a slowdown in capital investments. And experts said consumer spending was forecast to see 2.2% growth, which was down

from 2.7% on average for 2017–2018. But as of March 2019, US Federal Reserve Chairman Jerome Powell announced the central bank had no plans to raise interest rates for the rest of the year.

Nevertheless, the forecast of slower growth was issued before the US–China trade truce. Looking at US GDP growth which is at 2.6% for fourth quarter 2018, it appears that Wall Street bigwig analysts failed to see how warmer relations between Trump and Xi would have a deeper impact on US GDP figures and that 2019 should be a better year than expected for US economic growth. Christmas sales figures had demonstrated the strength of the US economy. Although Jack Ma's initial strategy to create one million jobs in America had failed to materialize and small American business owners did not take aggressive steps to export their items to Chinese consumers by utilizing e-commerce platforms there, online sales were very high in the US. MasterCard reported that US online sales from November 1 to December 24 had risen by 26.4% in 2018 compared to the same period a year earlier. But retail sales at department stores had dropped 1.3%. Ironically, similar consumer trends were developing in China a few years earlier when huge department stores in the country were closing down on account of having so few shoppers.

At that time, Chinese consumers were flocking to e-commerce sites to make purchases even for daily necessities. Apparently, the Chinese, not US, consumers deserve special recognition as global consumption trend-setters.

Meanwhile, the Pentagon has increased its annual budget for US defense spending to over \$700 billion for 2018, while more sales of US-made weapons were under contract to be exported, which would all play a crucial role for the US economy in 2019 as well. But one should never expect Trump or Xi to sign a trade agreement that would allow for them to share secrets on military technologies, and neither side will agree to sell weapons to each other.

Washington and Beijing were expected to enjoy closer diplomatic relations and economic cooperation after signing a trade agreement, but that should not connote that they would establish an alliance in which both countries pledged to defend each other in war and to

exchange weapons and training expertise during times of peace. The US and China would not be enemies, but as rival superpowers, there would not be a military partnership between them for the foreseeable future.

The US economy may stay strong in 2019, but the US stock markets have experienced a wild ride of sharp upturns and sudden downturns ever since Trump arrived in the White House.

Stock Markets — Ups and Downs

In contemporary society, the mainstream media outlets, Wall Street banks and stock market investors are all inundated with business news, information and endless updates. Many investment professionals are expected to analyze or trade on real-time movements on the stock ticker and, every weekday, many millions of shares are exchanging hands every single minute in a major stock exchange somewhere in the world. When Wall Street traders are sleeping on a weekday night in New York, either the Asian or European markets are operating at full speed.

When the stock markets are fluctuating wildly, speculators have grand opportunities to score big-time profits, but many other investors would also get wiped out in the process. That is important to note as one looks closer at the New York Stock Exchange (NYSE), NASDAQ and S&P 500 charts from the day Trump was inaugurated — January 20, 2017 — to March 31, 2019.

In regard to Trump's first 12 months in the White House, the Dow Jones, NASDAQ Composite and S&P 500 indexes had closed on January 19, 2017, respectively at: 19,804.72, 5,555.65 and 2,271.89. A year later, those same indexes stood at 26,115.65, 7,296.05 and 2,798.03. That was a remarkable surge in the stock market, but when reviewing the same indexes on January 19, 2019, which closed at the end of the year, Dec. 31: at 25,883.25, which was down for 2018. Apparently, 2017 was a better year for stock market investors than 2018. But 2019 could be poised as a banner year.

However, didn't the so-called Wall Street banking experts forecast a dismal year for the US economy and warn investors that stock

markets would enter a bear market in 2019? Apparently, not even highly paid analysts can know everything and so the stock market does not accurately reflect the current state of the US economy. When it came to the bottom line, the US economy was doing well under the Trump administration and a new substructure was developing in which Main Street had become a greater priority for the US economy than Wall Street.

The website, *The Conservative Treehouse*, authored by a person with the moniker, Sundance, had hosted articles when Trump was campaigning for the GOP nomination for President in 2016 explaining that his political rise had stemmed from receiving support from ordinary Americans and Main Street, which had suffered under hard times with the rise of globalism. Wall Street had hired lobbyists in the Washington Beltway to protect their self interest, but regular folks and small business owners could not afford such luxuries and they were largely ignored by the elites in Washington and New York.

In one article, Sundance described how Trump was “educating voters”⁵ on the need to shift the paradigms by moving away from a domestic economy that was driven by consumption and services and moving back to goods-based and manufacturing-driven economy. But Trump had not just jumped on the conservative “America First” bandwagon in recent years, but had been touting this agenda ever since the late George H.W. Bush was calling for a new world order under his administration.

A YouTube video clip captures footage of Trump testifying in Congress in 1991 when he was known as a successful Manhattan-based property developer.⁶ He was talking about the same issues more than 15 years ago, which were his key themes on the campaign trail in 2016.

⁵The Conservative Tree House, “A generation of politically economic re-education: Wall Street-vs-Main Street ...”, <https://theconservativetreehouse.com/2016/02/15/a-generation-of-politically-economic-re-education-wall-street-vs-main-street/> (February 15, 2016).

⁶YouTube, “Donald J. Trump speaking at Credit Availability US House Committee”, <https://www.youtube.com/watch?v=Rksd80-FCAw> (November 21, 1991).

He had proposed long-term goals for the continued success of the US economy, which were for Americans to depend less on foreign companies for cheap goods, to re-establish the US manufacturing sector and production bases, while helping US manufacturers to become much more competitive by promoting an American spirit of manufacturing and innovations.

From 1991 to 2016, US Congress, Big Business, Wall Street and the Washington Beltway did not appear to be listening since that period marked the height of the globalism era with the decline of US manufacturing. Ironically Beijing, not Washington, had embraced the principles of entrepreneurship and innovation in the marketplace. In 1991, Trump had suggested another solution to cut costs for US supply chains in order to make domestic manufacturing more competitive in the international markets — his idea was “energy independence.” For the past few decades, before Trump’s ascendancy to the presidency, the US had been net importer of energy, with the Organization of Petroleum Exporting Countries (OPEC), mainly composed of countries from the Middle East, delivering huge supplies of oil and gas to the US on a daily basis.

American consumers had to rely on OPEC countries to supply them with a major source of energy, while renewable energy was not as efficient and cost-effective as oil and gas. With the rise of environmentalism from 1991 to 2016, the US coal industry was hard hit as President Obama refused to grant permits to new coal power plants and many coal plants were shut down. Accordingly, energy prices surged on account of lower supply and higher demand. So when Trump entered the White House, he outlined plans to roll back Obama’s environmental restrictions, open up lands from US National Parks, especially in Alaska, to allow for more oil and gas drilling. Exploration and shale gas drilling has helped to make the US the largest producer of oil and gas in the world, starting in October 2018.

However, while the US economy had transformed into a net exporter of energy, the stock market began to nose-dive in the last two months of 2018 since the Federal Reserve had raised interest rates and

US GDP was trending downward. But Main Street and the US oil and gas industry were flourishing. There was a more drastic disconnect between Wall Street bankers and regular Americans as the stock markets hit the panic button while US consumers were spending at record levels amid the 2018 Christmas season. “Wall Street is running around like a chicken with its head cut off,” the *Conservative Treehouse* quotes Craig Johnson, president of Customer Growth Partners as saying, “while Mr. and Mrs. Main Street are happy with their jobs, enjoying their best wage increases in decades”⁷ as shoppers delivered the best sales figures in the past six years.

When reviewing articles about stock markets from the US-based business news media — *Wall Street Journal*, *Reuters* and *Bloomberg* and other mainstream media outlets — one would get the impression that President Trump was leading the world’s financial markets into imminent catastrophe while the TCJA was causing the US economy to plunge further. The pessimistic viewpoints may sound extreme, but there were plenty of examples of stories that highlighted dire and doomsday warnings for Trump-a-nomics. The bond-ratings agency Moody’s Investors Service had issued a report in early December claiming Trump’s tax cuts would “erode America’s fiscal strength for the next decade.”

They had forecast that the US economy would have 2.9% growth for the years 2018 and 2019. And when reviewing the first quarter 2019, growth hit 3.2% *New York Magazine* deserves recognition as the award-winner for publishing the most alarmist headline, which read, “Trump: Give Me a Wall or I’ll Engineer a Recession,”⁸ but checking out Trump’s Twitter account, reading White House press statements

⁷The Conservative Tree House, “Wait a minute ... Are financial analysts/media playing games with holiday growth rate of consumer spending? ...”, <https://theconservativetreehouse.com/2018/12/26/wait-a-minute-are-financial-analysts-media-playing-games-with-holiday-growth-rate-of-consumer-spending/comment-page-1/> (December 26, 2018).

⁸New York Magazine, “Trump: Give me a wall or i’ll engineer a recession”, <http://nymag.com/intelligencer/2018/12/trump-threatens-close-southern-border-wall-government-shutdown-recession.html> (December 28, 2018).

and listening to Trump's public remarks in December, it appears the US President had never said that.

New York Magazine was considered a respectable media outlet that was not expected to engage in deliberate fake news, so it seemed odd they would publish an article with a blatantly false headline. But by framing the argument as Wall Street versus Main Street, one can gain a better understanding as to why the New York and Washington-based media had gone overboard to denounce Trump. Wall Street succeeds when publicly-listed companies succeed, because that is how investment bankers and hedge fund investors generate their revenues. They buy and sell stocks. But when it comes to Main Street, small business owners are mostly privately-owned as they are not big enough to become publicly-traded companies. Hence, they cannot afford to pay for nationwide publicity and advertising campaigns. Big Business can pay for massive expenditures in marketing with funds that get diverted to buying ad campaigns in national media markets.

The media tends to look more favorably at their corporate sponsors. If multinationals oppose Trump in the White House, they have an extra incentive to attack the US President in print, broadcasting, and new media. Do reporters really deserve blame? The major media cannot exist or earn profits without support from its advertisers and ownership. The *Washington Post* was bought by Jeff Bezos, CEO of Amazon, and so its readers will be hard-pressed to find stories that criticize the Seattle-based e-commerce site when reading this newspaper. The same conundrum arises with the Hong Kong-based newspaper *South China Morning Post* that is owned by Alibaba founder Jack Ma. From a logical perspective, Trump can complain about fake news all day and all night, but so long as he continues to fight on behalf of Main Street in their battle against Wall Street, the American media will do the bidding of their sponsors and assail Trump by framing the narrative about him in villainous and heart-of-darkness terms.

In December 2018, when the stock markets were plunging worldwide, neither Trump nor the anti-Trump media were to blame for it. The Federal Reserve had raised rates eight times since 2016. But for the eight years Obama was in the White House, the Federal Reserve had

only raised rates once and that was in December 2016 after Trump was elected. Despite the rate increases, the stock markets still trended higher for all of 2017 and much of 2018. The stock markets had been hard hit when US treasury bills offered higher yields — 2.32% as of December 5, 2017 — 0.50% higher than the same time a year earlier. Although such yields were not very high, investors buying into treasury bills were getting US government secured bonds, meaning there was almost no chance of them defaulting when reaching maturity. When treasury bill yields rose, that had resulted in less capital investments going towards the stock markets as investors preferred safety over risk.

Trump had taken to Twitter to claim the Federal Reserve was the biggest danger to the US economy in 2019, even though central banks were expected to play a crucial role in averting boom and bust cycles. When the stock markets and GDP rates soared higher than expected, that could lead to higher inflation rates. If there were bubbles in the financial markets that might cause a financial crisis and, at worst, a depression with massive unemployment nationwide. The Federal Reserve would have caused much more harm to the US economy had they chosen not to raise rates going into 2019. Had rates stayed low, they could not lower them later to help the nation rebound from an economic crisis if that ensued.

The role of the Federal Reserve was not to act like a cheerleader praising higher GDP growth rates but to serve as a stabilizer in boom times or when the economy stood on the precipice of doom. And for the rest of Trump's term in the White House and when future leaders take charge of the country, the stock markets will stay unpredictable, moving up and down, which will keep everyone guessing. The US stock markets should not determine the fate of Trump-a-nomics, since the US President is more concerned with boosting the nation's manufacturing sector instead.

Stronger US Manufacturing

When Trump was campaigning for President and after he was inaugurated, as well as throughout 2017 and 2018, his critics had continued

to make the argument that US manufacturing was declining and there was little chance of US manufacturers regaining their former glory. Chinese companies could produce goods at lower costs by having control of large segments of the supply chain. Forcing China to pay higher tariffs would not improve the attractiveness of the US production base, since Chinese companies could transfer their factories to Southeast Asia or even Africa and export goods from there if necessary. China's BRI and South-South Cooperation were laying the groundwork, with Chinese construction companies building more roads and railroads while upgrading shipping ports in a number of developing countries all over the world, which would make logistics costs lower and deliveries much more efficient and quicker when sending goods to the US markets from other parts of the globe.

Nevertheless, the Trump naysayers had failed to see opportunities for US manufacturers to boost supply chains in their homeland. China was also at a disadvantage in needing to import a large portion of its raw materials in order to manufacture end products, as well as having to import a huge supply of oil and gas monthly, even though the country also happens to be the world's largest producer of renewable energy. The shale gas revolution in the US with extraction of an abundant supply of gas, particularly from the Eagle Ford and Permian Basin regions of Texas, had set the stage to lower transportation costs for American truck drivers, many of whom relied on diesel to fuel their vehicles, while the US could boost exports of LNG to China and other markets.

The US also has a strategic advantage over raw materials as it has large deposits of iron ore, coal, steel, precious metals, and vast mineral assets that are vital components for today's manufacturing sector. Yes, Chinese manufacturers will continue to hold the advantage of maintaining lower labor costs, but the US has large reserves of raw materials and has increased its energy supply, which means the US is well poised to rival China as a major manufacturing base for global markets.

Nearly two years after Trump became President, as of December 2018, *Breitbart News* reported that wage productivity and work satisfaction for

America blue-collar workers had risen to higher-than-expected levels, especially in the fields of agriculture, mining, utilities, construction, manufacturing, transportation, accommodation and food services, repairs, maintenance, and personal care services. Trump's initiative to promote "hire American" immigration policies have also made US citizens more valuable in the labor force.

With more factories opening in the US while the population ages and the working-age population shrinks, the biggest beneficiaries are likely to be the working poor, many of whom did not attend tertiary education. As US manufacturers seek to "hire American," they are lowering education requirements for job applicants. Many blue-collar job seekers no longer need a Bachelor's degree to be employed by a rising number of companies.

In the long term, white-collar workers in the US will face less competition in getting jobs if they hold college degrees, while the US manufacturing sector has continued to expand and hire more Americans. That is because fewer Americans will attend colleges and universities in future generations since Trump had signed an Executive Order to boost vocational training and apprenticeship programs. According to a press release issued by the White House,⁹ "President Trump is fighting for America's forgotten men and women, taking action to help retrain our workforce and equip students and workers with the skills they need to succeed." Trump also signed an Executive Order to launch a workforce policy advisory board that aims to improve job training and vocational education for American high school students, as well as those in their mid-careers who are looking to work in blue-collar fields.

The White House made a "Pledge to American Workers" to offer job-skills training to over 500,000 US citizens looking to work in the manufacturing sector full time. A December 2018 report from a New York-based think tank and consultancy firm to global businesses, The

⁹The White House, "President Donald J. Trump's executive order on workforce development", <https://www.whitehouse.gov/briefings-statements/president-donald-j-trumps-executive-order-workforce-development/> (July 19, 2018).

Conference Board, also re-affirmed that blue-collar labor shortages would likely continue for at least the next few years. Gad Levanon, the main author of the report, was quoted by *Fox Business News* as saying:

In certain instances, companies looking to attract blue-collar workers will have to continue increasing wages and, as a result, possibly experience diminished profits. But the picture looks very different for the workers themselves. Compared to a few years ago, blue-collar workers are now much more likely to have a job they are satisfied with and experience rapid wage growth.¹⁰

It should be noted that during the Obama White House years, blue-collar workers and their families were often stigmatized. Whereas, during the days of the Trump White House, US companies have recognized the true value of the “hire Americans” policy to the US manufacturing sector. The “forgotten man or woman” working as a laborer and without a college degree will no longer be considered a person of mockery. In many cases, a person such as a plumber could be earning a six-figure annual salary while an office administrator, even one employed by a Fortune 500 company, would feel lucky if he earns \$60,000 per year. And even that income seems unlikely unless the office worker has been with the same company for many years and has received a series of promotions and pay raises from his long-time employer.

The report, *A Federal Agenda for Revitalizing America’s Manufacturing Communities* by Andrew Stettner, senior fellow at the Bernard L. Schwartz Rediscovering Government Initiative of the Century Foundation,¹¹ has also addressed the rise of US manufacturing and suggested that the government, academia, and private companies should collaborate to introduce more vocational schools and apprenticeship programs for the nation. The report also advised firms to hire

¹⁰Fox Business News, “There’s a blue-collar worker shortage in the US”, <https://www.foxbusiness.com/economy/theres-a-blue-collar-worker-shortage-in-the-us> (December 20, 2018).

¹¹The Century Foundation, “A federal agenda for revitalizing America’s manufacturing communities”, <https://tcf.org/content/report/federal-agenda-revitalizing-americas-manufacturing-communities/?agreed=1> (September 12, 2018).

manual laborers as full-time workers without requiring them to show proof of holding a high school diploma.

One should ask: would knowing how to calculate the length of the hypotenuse of a right-angled triangle make somebody a better janitor? And if such employees did indeed understand how to perform basic calculations in trigonometry, they might be asking themselves: “Why am I working in a job that forces me to scrub toilets?” In other words, highly-educated adults are likely to frown upon doing blue-collar work. But a country that only has a few manual laborers could not succeed. Even by opening up the borders to welcome a large wave of immigrants with open arms, such as has been witnessed in Germany, Sweden and other EU member states, they are taking risks by inviting many people who just intend to exploit the system by emigrating to a new country, demanding social welfare benefits for themselves, while driving labor wages lower overall.

Meanwhile, the US manufacturing sector is facing other challenges. According to global testing assessments, American students are scoring very poorly in science and math compared with their European and Asian peers. A high percentage of American high school students remain widely ignorant on STEM (Science, Technology, Engineering and Mathematics) topics. Let us take a closer look at a chart listed below to see how much lower American students rank worldwide compared with their Asian peers.

Students from China and many other Asian countries score very high on science and math tests while American students appear to lag far behind. For the US manufacturing sector to surpass China’s production levels, the younger generation of Americans should gain a better understanding of science and technology in order to boost their professional career prospects, as well as to promote innovation for the domestic industrial sectors. If Americans can get smarter about STEM, even for those who prefer to work with their hands, they can learn how to adapt and use more up-to-date equipment and tools for their respective jobs. But the US has a long way to go.

Germany’s manufacturing sector accounts for 21% of its total GDP, but in the US, that figure stands at 11.6%, which means US manufacturers would have to double their production output just to keep pace

with Germany. If Trump succeeds in his efforts to promote “Made in America” products, it will still take about a decade or longer for the US to achieve that target.

Trump’s creation of a workforce advisory board was a step in the right direction to revitalize the US manufacturing sector. American companies should invest much more in training its hired or prospective workforce. In former times, many US companies were reluctant to provide on-the-job training, using the argument that such investments were costly and time-consuming, and when employees had learned the technical skills and received certification, many would often departed from the firm to find higher-paying employment elsewhere. That was a valid argument, but the failure to offer training programs while still expecting new hires to be experts at their jobs starting from Day 1 was not an effective strategy either. Companies had fewer qualified candidates to choose from when hiring. If training programs were provided, they could require trainees to stay employed with the company for a certain number of years or face a penalty if they leave. But training programs would always come with perceived risks for companies, since some employees would inevitably leave.

Nevertheless, when private companies work in tandem with government and academia, there is a better chance of success. Such training programs could emphasize “learning by doing” so companies could get trainees to add to production in the process. Companies should see the benefits of investing in the next generation of workers by communicating with local schools to explain what students should learn in order for them to become better-prepared when they enter the workforce as adults. Another smart move would be to enhance distance learning and develop online education platforms so students can learn on computers at home, or at school where a teacher can give them guidance. In addition, the US manufacturing sector has to accept the reality that more factories will be adopting automation, so production levels will increase while requiring fewer human beings to perform the tasks. In the near future, we can expect a new wave of factory robots replacing American laborers, but blue-collar workers can still adapt by becoming more

knowledgeable on STEM topics. In the meantime, Trump has already boosted the US labor market.

In Trump's first two years in office, approximately 4.5 million new jobs were created in the country, a 3% increase from the 152.2 million Americans that were employed full-time at the end of the Obama administration, according to *The Balance*. Those employed in the manufacturing sector have witnessed their annual salaries surge to \$79,000 on average as of December 2018. Nonetheless, from 1998 to 2010, the US lost 34% of its manufacturing jobs. President Trump sparked a rebound in the US manufacturing sector and blue-collar workers had plenty of reasons for optimism. The TCJA lowered their taxes, the US retail sector was booming, the nation's annual GDP growth rate could rise above 4% in 2019 and if Trump and Xi sign a formal bilateral trade agreement in 2019 or 2020, a big increase in US exports to China would become the new normal. But for that to happen, the US manufacturing sector has to stay strong and vibrant, expand production, and emerge as more competitive, especially when challenging Chinese manufacturers.

Yet, China's manufacturing sector would not become obsolete, no matter how successful Trump's "America First" and "hire American" policies are. The best that US manufacturers could hope to achieve in the next few years would be just to play catch up with China's production. The Chinese government is looking towards innovation and automation to transform its industries for the onset of its "Made in China 2025 Plan." Advancements in science and technology and upgrades in China are expected to play crucial roles to keep the national economy running strong as Chinese companies shift towards a consumer-driven and services-based economy. China's drive to remain the world's factory will only be sustainable if Chinese factories become fully-automated. Perhaps someday you may walk into a large-scale factory and see robots performing nearly all manual labor tasks.

Are such notions just science-fiction fantasy or the new reality for the future of the manufacturing sector? Will China usher in a new age of robot-driven factories? Or was it just an illusion created by government propagandists? Perhaps they were creating illusions as an attempt

to glorify China, which they considered to be their patriotic duty. Meanwhile, US trade officials have raised concerns that Chinese companies are not really innovative, just copycats, stealing secrets from US technology firms in order to gain the upper hand in automated manufacturing. Nevertheless, US officials have failed to point out that China files more patent applications each year, and has the largest number of STEM graduates entering the job market.

Accordingly, it is time to address such matters because, if Trump and Xi both wish for a successful conclusion of US–China trade talks, the two sides must find resolution in regard to Beijing’s “Made in China 2025 Plan,” while Chinese companies have to demonstrate sincerity in efforts to stop cheating and demanding forced tech-transfers. Beijing should be required to implement new laws and, as a matter of fact, the National People’s Congress introduced and passed a new foreign investment law at the Two Sessions in March 2018 which was intended to halt the nefarious practices that have been so commonplace in the country over the past few years. Then what lies ahead for China’s manufacturing sector?

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Part IV

Search for Common Ground

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Chapter 10

What is “Made in China 2025?”

We have gone ... way up, they (China) have gone down. I don't want them to go down. We shall have a good meeting and we are going to see what we can do. We are going to try and make a deal with China because I want to have great relationships with President Xi ... and also with China.

US President Donald J. Trump speaking at a meeting with Chinese President Xi Jinping at the 2018 G20 Summit in Buenos Aires, Argentina.

Whoever leads in AI (artificial intelligence) will rule the world.

Russian President Vladimir Putin.

We (China) will fully open up the manufacturing sector, with no mandatory technology transfers allowed, and we will protect intellectual property.

Chinese Premier Li Keqiang speaking at press conference,
March 2018, National People's Congress.

'Made in China 2025'

In 2014, globalism was still enjoying its heyday as a world trend, while few sovereign governments had any awareness that the winds of populism were about to sweep across the globe. First touted by former President George H.W. Bush in 1991, the “new world order” movement defined an era of economic competition between countries and regions. The former US President claimed that economic competition among nations should be conducted in a spirit of friendship, just like the Olympic Games. Concepts of fiery nationalism and bitter internecine

rivalries for economic supremacy among nation states were deemed irrational by the world's elites as well.

President Obama continued to support new world order ideals, hoping to spur harmonious competition. He assigned White House economic officials to write a report in 2014, *Accelerating US Advanced Manufacturing*,¹ which proposed that Washington encourage more US investments in the nation's science and technology sectors. The US report was not intended to spark ominous warnings that Washington had sought to adopt globalism values. Obama was just following other sovereign governments' actions, such as Germany publishing its Industry 4.0 plan in 2011 and Japan's Society 5.0 strategy. He was "leading from behind" by following up with praise for US manufacturers, as a basketball fan would cheer for his favorite team.

In the same spirit of sportsmanship, Beijing sought to follow up with its own plan to promote Chinese manufacturing by publishing the Made in China 2025 Plan a year later. Yet in hindsight, it now appeared that when Premier Li had assigned experts to write up the strategy, the co-authors were overly-enthusiastic about demonstrating their patriotism. They failed to recognize the harm they could cause by boasting about the 2025 plan. They had set a target 70% self-sufficiency for their high-tech industries and stated that by 2049 China would seek a "dominant position in global markets".

In other words, Beijing had declared in its non-binding plan that China wished to become the number one superpower by 2049. When the plan was issued to the public in June 2015, signed by Premier Li, the international media and other governments expressed few concerns since they initially concluded Beijing was writing its own version of Germany's Industry 4.0, but with Chinese characteristics. Even in July 2015, many people had not expected Donald Trump to win the White House campaigning on an "America First" platform. For the Chinese government in 2015, highlighting the Made in China 2025 Plan was

¹Manufacturing USA, "Accelerating U.S. advanced manufacturing", <https://www.manufacturingusa.com/reports/accelerating-us-advanced-manufacturing> (October 27, 2014).

simply a message that the Chinese stood prepared to adapt to new technologies in the age of automation in the manufacturing sector.

Yet, Chinese companies also understood that manufacturing costs were rising in the country and it was necessary to increase productivity and optimize production procedures by hiring fewer human laborers. Hence, the development of smart technologies, AI, Big Data, robotics, virtual reality (VR), drones, cloud computing, and other emerging technologies would be essential for Chinese integration of the so-called fourth Industrial Revolution.

Accordingly, Premier Li had recruited top-notch experts led by Miao Wei, China's Minister of the Ministry Industry and IT (MIIT) and a member of the Chinese People's Political Consultative Conference, the nation's highest-ranking political advisory body. Other members drawing up the plan included over 150 scientists and scholars under the MIIT, as well as 20 members of China's National Development and Reform Commission (NDRC), Cabinet-level officials, ministers of different agencies, and researchers from the Chinese Engineering Academy. They had spent over a year writing up a draft and revising it before reaching a consensus.

The basic principle affirmed "the market to lead, government to guide and reforms to deepen," according to the *South China Morning Post*. But even in 2015, Beijing considered the plan, "unofficial and non-binding." The plan set ambitious targets while highlighting a detailed agenda for the next 10 years and further ahead, but since the world would be in constant change, they made the plan legally non-binding so that it could be altered if necessary. If somebody, such as Donald Trump entered the White House, the non-binding aspect of the plan would allow them to disavow such plans if trade wars later ensued.

Let us take a closer look at the Made in China 2025 Plan to get a better understanding of why President Trump and White House trade officials were so upset after they had reviewed it in depth. The plan was a state-led industrial policy with declared aims to dominate global high-tech manufacturing. The plan had disregarded WTO rules that prohibited governments from setting quotas, such as the goal of 70%

self-sufficiency in advanced manufacturing by 2025, as well as rules against providing generous subsidies to companies exporting products overseas, and using such funding to acquire private foreign companies.

The WTO regulation in question refers to the Article XI of the GATT 1994, which states:

Article XI of the GATT 1994 is the main provision regulating quantitative restrictions (QRs). The scope of this provision includes all prohibitions or restrictions other than tariffs or other taxes applied or maintained by a WTO Member on the importation or exportation of goods, which can be made effective through quotas, import or export licensing procedures, or other measures. Although Article XI of the GATT provides for the general elimination of quantitative restrictions, they are allowed in certain specific circumstances. Members' QR notifications seek to provide transparency on these measures, including on its WTO justification.²

Nonetheless, WTO rules had often been ignored by EU governments, therefore China was not setting any precedents by supporting such subsidies. But China long had earned notoriety for failing to protect IPR and undermining a long list of international trade wars if they benefited the Chinese government and SOEs. Other critics had expressed concerns that the country's advancements in science and technology could pose serious national security risks to other sovereign governments. China's advances in the fields of computer technology had led to suspicions that the Chinese government was actively engaged in cyber-theft of secrets belonging to Western governments and multinational corporations.

After reading the Made in China 2025 Plan, the Trump White House concluded Beijing was endorsing a call to action for China to derail Western economies in order for the world's most populous nation to prevail as the leading superpower of the world. *The Nikkei Asian Review* had re-tweeted a tweet from Trump in which the US

²World Trade Organization, "Quantitative restrictions", https://www.wto.org/english/tratop_e/markacc_e/qr_e.htm (Accessed on April 21, 2019).

President had called the Made in China 2025 Plan as very “insulting”³ to Americans and the world at large since Beijing was not sparing of details or specifics over how they would implement the plan. Beijing announced a strategy of increasing subsidies, spurring government collaboration via academia and private partnerships to boost key industries over the next 10 years in areas including electric cars, new energy vehicles, next-generation IT (robotics and AI Plus), agriculture technologies, aerospace, engineering, new synthetic materials, advanced electrical equipment, bio-medicines, high-end rail infrastructure, and high-tech maritime engineering. The ultimate goal was for Chinese companies to rank as world leaders in all these sectors by 2025.

Another Beijing priority that set off alarm bells among White House trade officials was China’s bold agenda to manufacture its own semiconductors. According to the Council on Foreign Relations, the Asian giant accounted for 60% of global demand for semiconductors but only produced 13% of the world’s supply as of August 2018. Nearly all electronics products made in China required computer chips, also known as semiconductors or integrated circuits — tiny blocks composed of silicon, cobalt and copper. As reported by *Quartz*, the US chip industry alone employed over 250,000 workers, generating over \$164 billion in sales annually, and was one of the leading US export products to China as well.

The world’s top five semiconductor companies are all based in the US — Qualcomm, Nvidia, Intel, AMD, and Micron. A Bernstein Research report disclosed that in 2016, China had purchased over \$160 billion in chips, mainly Qualcomm chips. Chinese manufacturers had struggled to replicate the success story of the US chips industry since semiconductors were considered some of the most complicated products to design and produce on earth. It also required complex machines to perform etchings and moldings at microscopic levels,

³Nikkei Asian Review, “Retweet from Trump, President Donald J., @realDonaldTrump”, <https://twitter.com/nar/status/1060629443675389955?lang=en> (November 8, 2018).

according to *Quartz*. Meanwhile, opening a fabrication facility routinely cost upwards of \$10 billion to \$15 billion.

China's efforts to gain dominance in the semiconductors field could have posed a grave threat to the US economy. Since chips served as the primary source for innovations in hardware and software development for electronics devices, China's bold agenda to manufacture its own semiconductors could spell the demise of the US international lead in science and technology. And there was a strong likelihood that Silicon Valley could witness a steep decline in its influence as a high-tech hub for the world. China's development of semiconductors could also play a crucial role in President Xi's efforts to spark rapid development and modernization of the PLA and its aims to militarize by utilizing smart technologies to integrate more sophisticated weaponry for future use.

If the PLA had a deeper understanding of made-in-USA semiconductors, they would find it easier to engage in cyber-hacking of US government IT networks, obtain sensitive information and blueprints of weapons purchased by the Pentagon, and try to break into the Amazon Cloud which stores all the US government's confidential details from the Pentagon and CIA. Accordingly, Trump has repeatedly explained that he felt compelled to launch trade wars against China, not only to reduce record-breaking US–China trade deficits, but to restrain China's high-tech ambitions as outlined in its Made in China 2025 Plan.

However, it should be noted that Washington did not stand opposed to China's economic rise if they succeeded under fair conditions. The WTO had called for its member states to endorse free market policies, and that would require the elimination of subsidies to SOEs in order to reduce their influence and to halt the government's role as supreme ruler of the domestic economy. In other words, they should let private firms have the freedom to operate under fair market situations.

Nevertheless, the Made in China 2025 Plan had disclosed China's strategies to centralize the nation's manufacturing sector. That, in itself, stood against WTO policy. In doing so, Beijing had ramped up subsidies to Chinese high-tech firms, not just to support homegrown R&D labs, but to provide more capital via generous loans from China's

state-owned banks to acquire more Western firms, particularly high-tech start-ups based in Silicon Valley. Beijing also encouraged more Chinese companies to hire more overseas science talents by offering them high salaries, preferential tax treatment, access to government-sponsored social welfare benefits, and help to obtain visas (green cards). This was called the Thousand Talents Plan which was enacted as policy in 2008, according to the *Global Times*:

According to experts, so far the Thousand Talents Plan has yielded fruitful academic achievements in a range of fields including satellites and anti-AIDS drugs. Li said that participants in the plan have set up nearly 100 listed companies whose total value has reached 800 billion yuan, and is expected to exceed 1 trillion yuan this year. These are high-tech companies which push forward China's plans to upgrade its industrial capacity.

At a recent gathering of Thousand Talents Plan participants, many said that China is on a fast development track and its academic atmosphere and startup projects meet international standards. This makes them want to come back to their motherland to make their contribution. They say the feeling of returning home is different than working overseas.

Chen Ning, who works under the talent plan and is the CEO of a company in Shenzhen, South China's Guangdong Province, told the *Global Times* that participants have brought in advanced ideas, marketing operations and creativity to China, inspiring the country and local governments to set up a robust innovation mechanism and environment.⁴

Beijing's Made in China 2025 Plan appears to be well-organized and the Chinese government has left no stone unturned in its attempts to forge ahead as a dominant player in science and technology for the upcoming decades. The US, Japan and the EU have long enjoyed recognition for holding superior positions in the science and technology sectors, and when they witnessed China challenging them, it was no surprise that Washington, Brussels and Tokyo would find unified agreement in attempting to restrain Beijing.

⁴Global Times, "China's success at attracting skilled researchers draws ire of US", <http://www.globaltimes.cn/content/1117258.shtml> (August 27, 2018).

The world powers have claimed that China was cheating on account of its forced tech-transfer policy, but Beijing has denied engaging in such practices. Nonetheless, foreign companies that had tried to enter the China markets have said otherwise, and if Beijing wishes to sign a trade agreement with Washington, they must prove to the world that it supports fairness in efforts to promote the nation's science and technology when competing against other world markets.

Ending Forced Tech-Transfers

As mentioned in an earlier chapter, China's measures to implement forced tech-transfers set off US–China trade wars when US Trade Representative Robert Lightizer formally declared that Beijing had broken both Washington and WTO trade rules⁵ by imposing forced tech-transfers, as well as not having stringent oversight over cyber-thefts, not protecting IP, along with other matters. Chinese companies were also able pay less than market value for licensing of US-based brands. Lightizer declared that, as a consequence, the US had authority under Section 301 to impose higher tariffs on Chinese imports. Apparently, Chinese trade officials attempted to ignore White House threats even after Peter Navarro published a written response in August 2017 claiming the Chinese government had acted in a blatant manner to steal US technology secrets.

After the higher tariffs had begun to impact the Chinese economy, Beijing could no longer dismiss the accusations and sought remedies to resolve those concerns. The first step was for Beijing to issue a public reminder that the Made in China 2025 Plan should not be deemed as a legally binding document. The Chinese media also avoided making direct references to the plan as well.

Yet, the main concern remained, and the US and EU governments issued public statements claiming the Chinese government stood guilty as charged of conducting forced tech-transfers despite China's adamant

⁵World Trade Organization, "Technology transfer", https://www.wto.org/english/tratop_e/trips_e/techtransfer_e.htm (Accessed on April 21, 2019).

denials. In November 2018, Washington, Brussels and Tokyo submitted formal proposals on WTO reforms through the Council on Trade in Goods in an attempt to curb China’s subsidies to SOEs in the 10 key industries listed in the Made in China 2025 Plan. They also called for tougher measures against China over forced tech-transfers.

The tripartite proposal disclosed that the Made in China 2025 Plan intended for the Chinese government to provide over \$350 billion in subsidies to promote high-tech manufacturing, but China as a WTO member had not told the global trade governing body about their intentions. Beijing claimed the information about the apparent subsidies were classified state secrets. The WTO reforms, which have not been formally approved by all member states, also called for “no more unlimited guarantees — financial obligations, subsidies to insolvent or failing companies without (practical) restructuring plans, and no preferential pricing for raw materials and components,” according to *Harvard Business Review*.⁶

In prior instances when sovereign governments had accused China of breaking international rules, Beijing had routinely responded by issuing denials and then pledging to introduce new laws which they insisted they would not disregard. But in many cases, the Chinese government had reverted to its old ways since it was rare for sovereign governments to follow up and enforce tougher punitive measures against Beijing in retaliation. Nevertheless, USTR Director Lightizer had a reputation for standing tough against Beijing and continually reminded White House trade officials that the Chinese had a long history of making empty promises on trade deals, as reported in a *New York Times* profile on him.

Hence, Beijing would have to do more than promise to end forced tech-transfers, they had to provide verifiable proof. That was why Trump had called for a trade truce, not a trade agreement, on December 1, 2018, which would serve as an effective tool to prevent Beijing from

⁶Harvard Business Review, “How the U.S., the EU, Japan are trying to rein in China’s state capitalism”, <https://hbr.org/2018/11/how-the-u-s-the-eu-and-japan-are-trying-to-rein-in-chinas-state-capitalism> (November 9, 2018).

resorting to a policy of non-compliance to its prior promises. With regard to WTO reforms, Washington demanded transparency on government subsidies by requesting Chinese companies to reveal if SOEs were investors in the company and to provide detailed information on the company's website, such as the percentage of its government holdings, if government officials were listed as board members, and a summary of subsidies that had been received for the company's projects. Meanwhile, WTO member states should no longer require foreign companies to reveal source codes on highly-competitive core technologies which were developed by foreign firms at great expense, according to *Harvard Business Review*.

Nevertheless, Beijing made a valid argument that they had not mandated forced tech-transfers since in most instances foreign-based companies had volunteered to reveal their corporate trade secrets in order to gain a better deal when entering the lucrative Chinese market. Foreign firms were willing to share IP with its domestic partners in joint ventures. And in return, local or provincial Chinese governments offered incentives by selling land cheap for the foreign company to open a factory, warehouse or office space, and giving them reliable infrastructure, new buildings, and facilities. They could also receive generous tax exemptions and loans on favorable terms after complying with tech-transfer policies. From this viewpoint, a foreign company had no valid reason to criticize since the Chinese government had offered subsidies and incentives for them to expand operations in the country. As the saying goes, "you can't have your cake and eat it too," meaning foreign companies that had received many privileges on entering China should not feel offended if Beijing requested its own benefits in return as they were the direct counterparty to the contracts that were signed.

Did China deserve punishment for acting in this manner? Perhaps not, but if foreign firms had refused the tech-transfers, they would often face unexpected challenges entering the China market, and there was clear proof of unfair practices. US companies held the right to request payments at market value for offering up trade secrets within a set time-frame through legally-binding licensing agreements, but

Chinese companies had historically been allowed to purchase licensing at very low values.

Soon after the trade truce had gone into effect, Beijing announced it would soon introduce laws to forbid forced tech-transfers, require Chinese firms to pay more for licensing, as well as introduce a new foreign investment law. That had been a fair resolution and if China had continued to abide by such terms, the measures would have benefited not only US companies, but also China, since American companies would have more trust when doing business in the country and would not have to fear disclosing proprietary information involuntarily and harming their interests in the long term.

Meanwhile, Trump had other means to keep Chinese companies honest by supporting new US laws that would enforce more stringent measures on Chinese companies trying to acquire US technology firms. In 2017, US Senator John Cornyn (Texas) and US Representative Robert Pittenger (North Carolina) had both introduced legislation in the Committee on Foreign Investments in the US (CFIUS) that would limit or block US FDI outbound and US tech acquisitions by foreign firms. The proposed law was known as the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2017, H.R. bill 4311. The intent of the law would be to punish companies that had imposed forced tech-transfers on US companies.

Additionally, the US National Academies of Sciences, Engineering and Medicine would be permitted to implement more extensive reviews of US companies doing business in China, while the International Emergency Economic Powers Act of 1977 (IEEPA) had granted the US President legal authority to order sanctions on specific firms, individuals and countries, according to an article posted by the think tank Peterson Institute for International Economics. The law was approved with a majority vote in US Congress in August 2018 and signed into law by President Trump. Another law, the Export Control Reform Act of 2019 (ECRA) was adopted on the same date as FIRRMA. On November 19, 2018, according to *China Law Blog*, the US Bureau of Industry and Security published a notice for a proposed

law to identify emerging technologies that must abide by FIRRMA and ECRA.

Additionally, the US State Department and Pentagon had called for a renewed strategy to curtail forced tech-transfers by China to protect national security interests. The official website of the US State Department had posted transcripts of a speech delivered by Dr. Christopher Ashley Ford,⁷ Assistant Secretary for the Bureau of International Security and Non-Proliferation, who was speaking at the US Naval Academy shortly after Vice President Mike Pence had spoken at the Hudson Institute and described China as a major threat to world peace. Dr. Ford had spoken about his former life as a US naval intelligence officer and apparently cited US National Security Director John Bolton when describing China as an enemy state. Bolton had written about a “contest of power” or “central continuity in history.”

Dr. Ford referred to Chinese military writings that were originally published in the Chinese language and cited by the Chinese government. He mentioned how contemporary Chinese military strategic writings had described the concept of Military–Civilian Fusion (MCF), a project that was overseen by President Xi and the PLA to be formulated as a “revolution in military affairs.” China’s military forces were believed to have been engaged in the “informatization of warfare” that had sought upgrades in its modern communications and computing capabilities, as well as embarking on transforming AI for “intelligence warfare,” according to Bolton and the White House National Security Council. It seemed that Bolton had concluded that China’s support for forced tech-transfers was not just intended to give the Chinese economy higher growth rates or to grant Chinese companies an unfair advantage in competing against rival firms, but to give the PLA an unfair advantage in stealing tech secrets in order to build a stronger military so they could construct state-of-the-art weapons with AI capabilities.

Bolton perceived China as a militant power bent on Marxist domination of the world and he considered it his sworn duty as a US citizen

⁷United States State Department, “Why China technology-transfer threats matter” <https://www.state.gov/t/isn/rls/rm/2018/286889.htm> (October 24, 2018).

to do whatever he could, as Director of the NSC, to halt the rise of China. Actually, Bolton failed to consider that China's reforms and opening up had proven the contradictions of his preconceived notions, but since he had long held deep hatred for China for much of his life, it was unlikely that he could view the nation from a different perspective and with a more positive outlook even if there was evidence to show that his thinking was inaccurate.

Besides, every military, including those of the US, Japan, European countries and all others, wishes to build strong armies to defend their respective nations. At times, nation-states would act as aggressors by leading their armed forces into first-strike invasions against enemy states. So every military, especially those led by powerful countries, must stand prepared for war even if such governments might prefer peace as their primary objective. Maintaining a strong defense could serve as a major deterrent against war.

Therefore, international media stories depicting the PLA in a negative light, whether true or fake news, could boost China's image for having a strong defense. What motivated Beijing's drive to spend more on its military budget was that it would benefit the nation's economy since the government would have to employ more workers to build more weapons, and to hire more scientists to develop new weapons. In the meantime, Washington had followed up on the same policy but in reverse with the Pentagon warning US citizens that China was an alleged "menace to society" and hence Washington was compelled to increase the budget for its armed forces. But behind the scenes, it was commonly understood among diplomats that neither the US nor China had immediate plans to wage war against each other, which was further explained in a commentary on "Bluster Diplomacy" in *Sputnik News*.

Regardless of the statements and actions of the Pentagon or the PLA, Beijing had already announced plans to implement a new law to forbid forced tech-transfers and had informed the US envoy to the WTO, Dennis Shea, of their intentions. On December 23, 2018, the CPC drafted a related law to be formally introduced at the Two Sessions when the NPC convened in March 2019. Since,

according to China's Constitutional Law, a nationwide law can only be enacted with approval from the NPC, which only convenes once each year at the Two Sessions in March to vote on and approve proposed bills, the new law on foreign investments would only go into effect after the Xi-Trump 90-day trade truce ended on the last day of February.

Accordingly, President Trump had allowed an extension of the trade truce for another 60 days to give Beijing a chance to implement the new law and to ensure that it was enforced properly. While US–China trade talks headed towards a more positive conclusion in 2019, the Chinese manufacturing sector was poised for a remarkable transformation by embracing the age of automation. Meanwhile, the city of Shenzhen and the Greater Bay Area as regional high-tech hubs were expected to lead the way.

Shenzhen as Next Silicon Valley

China has long been known as the country that manufactures low-priced goods for exports and a large part of its success story as the world's leading exporter is due to its mass production of low-grade products. Nonetheless, manufacturing for cheap could not last forever since the rapid development of the Chinese economy has transformed the nation, resulting in higher costs to purchase land for factories, while labor wages continue to rise higher and higher.

As explained earlier, under the Made in China 2025 Plan, Beijing hopes to automate its manufacturing base in order to establish the nation as a powerhouse in showcasing IoT factories where robots perform a multitude of labor tasks in replacement of Chinese laborers. Yet, the transition will not be easy and the nation has a long way to go before achieving the level of science and high-tech innovations that have been witnessed in the US, EU and Japan. Nevertheless, Shenzhen and its surrounding region — the Greater Bay Area — has garnered much recognition as China's Silicon Valley.

In the 40 years since December 1979, Shenzhen has transformed from a small impoverished fishing village with only about 36,000

residents to a mega metropolis with a population of around 16 million. The city has become home to many of the world’s largest and most innovative high-tech Fortune 500 and Fortune 100 companies, according to *Information Age*. Shenzhen has garnered acclaim as the world’s leader of hardware manufacturing of electronics devices.

Shenzhen and 10 other cities in the surrounding region in Guangdong Province form the Greater Bay Area with over 66 million people living there. Another notable fact about Shenzhen is its demographics. According to the 2016 census, the average age of local residents is 28 years as more than six million young university graduates each year flock to the region in search of jobs. Its per capita income ranks as the highest in China, surpassing even Beijing and Shanghai in recent years. The city has a cool and hip vibe where aspiring entrepreneurs, science and high-tech talents, and ambitious business people swarm into the city hoping to pursue their career dreams. The top high-tech firms with headquarters in Shenzhen are Huawei, Tencent, DJI, BGI and ZTE.

The biggest player in town is telecommunications equipment giant Huawei which has a huge and modernized corporate HQ with over 60,000 full-time employees and 25,000 workers assigned to its R&D department. Over the past 10 years, Huawei has invested over \$400 billion, and has a policy to spend over 10% of its sales/revenues on R&D each year. The company’s directives are “based on the collective intelligence of its global team,” known as Huawei’s Global Innovation Hive, as reported by *Information Age*. Nonetheless, Huawei has become a casualty of the US–China trade wars.

The company had made huge advancements in its telecommunications equipment and been awarded large government contracts to install fiber optic cables worldwide. Huawei’s smartphones were considered to offer some of the most advanced high-tech capabilities, rivaling Apple and Samsung as one of the premier mobile device makers worldwide. However, many people held suspicions that Huawei’s founder and members of its board of directors enjoyed intimate ties with the Chinese government. Washington had placed a number of restrictions on Huawei’s business dealings and American retailers could

not sell its smartphones over concerns they might be digitally tracked by the Chinese government.

Huawei's efforts to test and deliver 5G networks in the US and a few other countries were halted under orders from President Trump. Even if a US–China free trade agreement were to be concluded with support from Beijing and Washington, there is little likelihood the US government would grant Huawei access to the US market, regardless of the circumstances. But Huawei has remained undeterred despite the arrest of its CFO, Meng Wanzhou, in Vancouver, Canada and the subsequent request for deportation to the US to face trial over charges of fraud.

In March 2019, the company's lawyers filed lawsuits against the Canadian and US governments, claiming Meng's arrest had been unlawful. Additionally, Huawei stood determined to seek legal approval to integrate its 5G networks in the US alongside EU member states, United Kingdom and countries of Oceania — Australia and New Zealand.

Although most Western governments sided with Washington, Germany Chancellor Angela Merkel has made it clear that Huawei may continue to operate in Germany, and Brussels has yet to take a firm stand for or against Huawei as of March 2019.

Nonetheless, Shenzhen still shines in the field of advanced manufacturing and has become one of the world's leading global innovation centers. Although not yet rising above Silicon Valley in status, it is a strong competitor against other science and technology hubs based in Singapore, Munich, Boston, Bangalore, and Rio De Janeiro. Shenzhen Mayor Xu Qin spoke to *TechNode* in January 2017, saying that more than 17,000 factories were shut down in the past five years in order to make room for upgrades in local high-tech manufacturing.

The city has aspired to transform into a major hub for R&D while spreading factories across the Greater Bay Area, including Dongguan, that had already attracted a huge influx of migrant workers to toil in factories there. Shenzhen intends to serve as a central location for startups, attracting fin-tech investments and supporting R&D, even as Shenzhen University emerges as a major player in academia. Shenzhen's neighboring city, Hong Kong, which is part of the Greater Bay area, has

many high-ranking universities too. Developers, inventors, and investors are encouraged to engage in openness and collaboration by supporting open-sourcing, meaning the sharing of new ideas with others rather than keeping such matters a secret. It is believed that open-source values, demonstrated by the Linux Foundation, could promote more creativity and efficiency as people and companies would design and develop new products and business models. Seattle-based software giant Microsoft has also expanded into Shenzhen and embraced open-sourcing, joining the Linux Foundation as a Platinum Member.

Collaborative efforts in Shenzhen sharply differ from present-day Silicon Valley which has become a very exclusive community. Silicon Valley investors are very selective, and they micromanage the technologies they invest in, and closely control how they are developed, applied, and distributed, according to *TechNode*.⁸ Silicon Valley firms have placed much reliance on patent rights enforcement and paying big sums in lawyers’ fees to protect patents and IP rights, while many Shenzhen start-ups are more focused on designing new products to hit the market at faster speeds.

Shenzhen firms have placed as top priorities creating new upgrades on mobile devices and advanced manufacturing. They have a very pragmatic approach, focused on putting ideas into actions. So Silicon Valley is where ideas are developed, and Shenzhen takes those concepts to the manufacturing level. Consequently, the city has been hailed as the “innovation factory of the world,” as reported by *Dragon Social*. According to an ABI report, since 2013, Shenzhen has transformed into the “biggest consumer electronics manufacturing base.” It is the world’s leading city for development and manufacturing of hardware and robotics, while the city has made tremendous strides in software programming.

A number of global rankings have listed Shenzhen as having the highest production efficiency at relatively low costs, as well as a mature ecosystem for high-tech start-ups preparing to bring new hardware

⁸TechNode, “How Shenzhen is challenging Silicon Valley”, <https://technode.com/2017/12/11/shenzhen-book-excerpt/> (December 11, 2017).

advances to the consumer market. In Shenzhen, a company can develop a product and get it to market in four to six weeks, whereas a Silicon Valley start-up making the same attempts would take about 12 to 18 months on average. The Pearl River Delta region has the vast network and infrastructure to support the build-up of thousands of factories and suppliers that have accounted for vast supply chains that are unrivaled, and when US manufacturers have to compete against the region in building up its own supply chains, American firms are hard pressed to rival high-tech firms in the Shenzhen's Greater Bay Area.

In an article posted by Xinhua, Shenzhen's total GDP had reached \$330 billion in 2017, making it the third largest city by economic size in China. Seven Fortune 500 corporations have their headquarters based in the metropolis, along with 14 unicorn start-ups, defined as a high-tech firm that has already generated over a \$1 billion in revenues. As of June 2018, 280 Fortune 500 companies have invested in Shenzhen and it is home base for 380 publicly-listed companies. Meanwhile, the city and the Greater Bay Area have garnered much more respect as a livable city and playground for the wealthy. Before the rise of Shenzhen, Shanghai, Hong Kong, and Singapore were the cities that attracted large multinationals and foreign talents to live and work there.

Many people earning high incomes prefer to reside in cities where they can raise a family in high-class accommodations with access to good schools. Since they have to work hard, they expect to be rewarded with modern-day amenities and comforts. They are more likely to worry about pollution and expect good healthcare and a safe food supply. Many wealthy people are concerned about health and become avid golfers and tennis players as they get older. The Mission Hills Resort, which is about an hour's drive from Shenzhen's CBD is recognized by the Guinness Book of World Records for having the most 18-hole golf courses — 12, and the most tennis courts — 46. The city's population is expected to reach 18 million by 2020.

If US companies are looking to expand operations in Shenzhen after a bilateral trade deal is signed, they should gain a better understanding of the top districts in the city, which are: Nanshan, Futian, Bao'an and Luohu. Nanshan is the location of the High-Tech Industry Park,

Shenzhen University and Shekou SEZ. Luohu is known as the Gateway to Hong Kong. Futian has the CBD and Huaqiangbei — one of the world’s largest electronics markets, which has become famous as a place for consumers to search out new inventions. Customers can even build their own smartphones by purchasing and installing components and parts from different vendors. Bao’an has the Bao’an International Airport that is expected to become one of the world’s busiest and most modern airports.

Accordingly, the Greater Bay Area may likely surpass the Silicon Valley as the global innovation hub in the years ahead. And, in doing so, China’s manufacturing sector will embark on massive upgrades by integrating, AI, smart technologies, Big Data, VR, cloud computing, 5G, robotics, and other emerging technologies into Chinese factories and warehouses. Shenzhen has set forth on the path to this amazing transition and it is time to see what the future holds for China’s manufacturing as it undergoes development in automation and automated factories.

Automated Manufacturing and Logistics

As reported by *ZDNet*, the leading high-tech firms in China had invested heavily in and embarked on major projects that focused on expanding automated and advanced manufacturing as they believed AI was shaping the future of tomorrow’s factories. The firms — Baidu Inc., Alibaba Group, Tencent Holdings, JD.com, Huawei Corp. and Xiaomi — were major players as they had achieved rapid developments in AI and robotics. Baidu was charging ahead with significant breakthroughs in AI — machine and deep learning — in which AI could absorb larger amounts of big data to get smarter and to expand its capabilities. Hence, more and more AI robots were replacing laborers on factory floors. Beijing-based Cheetah Mobile was considered to be an up-and-comer as a developer and manufacturer of AI robots.

They were not alone. An increasing number of Chinese start-ups, mainly based in the Greater Bay Area, are jumping into the market, hoping to create a wave of new and improved robot workers that could

take automated factories into the next generation of greatness. Ground zero for robotics builders appears to be the city of Dongguan, which had been formerly known as the “Made in China” factory of the world.

The city of 8.34 million, of which about three-fourths of the local residents are migrant workers, has become a magnet for smart technologies manufacturers as it produces millions of robots and countless units of automated equipment for world markets. The top customers, as of the end of 2018, were factory owners based in the US and Europe, but more Chinese manufacturers were making orders for them as well. Nearly one out of five smartphones made in China come from Dongguan, which means that in the near future, robots, not humans, will become the main laborers for assembling and packaging mobile devices, which could result in millions of migrants losing their jobs or, at the very least, they would be employed to manufacture robots.

With such stunning developments in AI robotics, a new era was emerging when robots were even building themselves, and damaged robots could fix themselves by recharging their batteries. Robots could also plug themselves into rechargers when needing a burst of energy, while Chinese battery developers were developing new technologies in which super-batteries could be recharged in minutes, not hours. Chinese companies have already opened recharging stations on the roads for electric vehicles, where cars can fully recharge in about 5–10 minutes, and it could be even faster in a few years’ time.

Meanwhile, Chinese AI start-ups are making forays “to disrupt global logistics with robotics arms and computer vision.” Spencer Deng, founder of Dorabat Inc., a robotics and AI startup that started in 2014, said his company had made new upgrades to the Yaskawa robotics arms “trained to identify and sort parcels carried by the conveyor belt,” Deng told *Forbes* magazine.⁹ He “bought the robotic arm, fitted cameras and graspers to it and then programmed the machine to use image recognition to quickly determine how to pick up items based on their shapes and packaging material, and then place them into vari-

⁹Forbes Magazine, “This Chinese AI startup aims to disrupt global logistics with robotics arm and computer vision”, <https://www.forbes.com/sites/ninaxiang/2018/12/18/this-chinese-ai-startup-aims-to-disrupt-global-logistics-with-robotic-arms-and-computer-vision/#6b31c0673b38> (December 18, 2018).

ous containers.” In other words, robots employed at warehouses had been adapted for deep learning as they could figure out which items should be placed into categorized boxes. That was a big step forward, since before the upgrade, the best a robotic arm could do was to pick up items and move them to a different place, but they had to be operated by a human being to place the item in a specific box.

It was almost as if the Yaskawa arm could think for itself, but that was impossible, since the best AI could accomplish was for it to be programmed to respond to different scenarios, similar to how people play video games. That is why AI minds digesting Big Data can play such a prominent role in development processing. AI robots were becoming more valuable than human workers in the manufacturing sector. Many factory and warehouse jobs involve repetitive tasks which do not require subjective thinking from the worker: move box A from the shelf in a warehouse, check it off and list it for shipment to a specific store and place it in the truck for delivery. In the future, most warehouse activities are likely to be fully automated. Alibaba has already set that up with its subsidiary company — Cainiao Logistics — as reported by CCTV.com’s *Panview*:

In July 2017, Cainiao, logistics subsidiary of Alibaba Group, opened its smartest warehouse with China’s largest population of robots. Mobile robot, known as AGVs (automated guided vehicles), come equipped with WiFi and self-charging batteries.

Cainiao offers either same-day or next-day deliveries to over 1,000 regions of China. When somebody logs on to Taobao and they click on a shipping request for an item, that starts IoT and robot workers into action.

An AGV receives transmission of order and locates item in warehouse and delivers it to clerk. Robots can conduct 3,000 orders in an 8-hour shift, while routinely human workers could do 1,500 orders in the same time-frame.

Robots can travel at 1.5 m/sec or 5 ft/sec and carry up to 600 kilograms per load. A fleet of 100 AGVs have sensors to avoid collisions and are controlled by human managers using IoT.¹⁰

¹⁰CCTV.com, “China breakthrough: IoT ramps up logistics into high gear”, <http://english.cctv.com/2017/09/13/ARTIrN7YpGhSrLEU37W1bzRA170913.shtml> CCTV, cctv.com (September 13, 2017).

China's high-tech manufacturers and logistics operators had developed a new level of efficiency and speed for repetitive tasks in manual labor. The shifts of robot workers could run continuously without complaint, and they would only require their batteries recharged after a shift. When restored to full power, they could go back to work. Even the most diligent and conscientious human workers could not work for such long hours on a continuous basis, year in and year out. Although, robots were expensive to purchase, manufacturers were prepared to use them for the long term. This would score an inevitable return on investment through laying off human workers and mass-producing at higher and faster levels. It was just common sense for factory owners to utilize robots if that could benefit them investment-wise.

The impact would inevitably harm the hundreds of millions of Chinese migrant workers most of all, since they had been hired to perform such tasks in large numbers. But business trends could not go ignored for too long or competitors would exploit that. The US and EU markets had become major players in automated manufacturing and Chinese manufacturers were playing catch-up, but eventually would likely surpass all other countries in the battle for automated manufacturing supremacy.

Spencer Deng explained to *Forbes* that, starting in 2010, Baidu Inc. had made significant progress in AI deep learning with advances in computer vision, and voice and facial recognition. Dorabot was devising solutions to upgrade robotics by using cloud-based systems, AI algorithms, and deep learning capabilities. But as of December 2018, the company's products were still in the R&D stage and not ready for real use. In the meantime, another AI startup, China-based ALOG Technology, has emerged as a key supplier for warehouse management services, working with Alibaba's TMall and Ciaoniao Logistics, as well as collaborating with another Chinese unicorn, Megvii Technology that had acquired Ares Robot in 2018 to handle orders from Taobao customers.

The biggest annual shopping day for Chinese e-commerce shoppers is November 11 — 11/11. This day, referred to as Single's Day, was established by Jack Ma in 2009 as a marketing tool to inspire the

Chinese to go online shopping, with e-commerce merchandisers selling items at deeply discounted prices. This year, ALOG Technology used 500 fulfillment robots to handle 1.5 million orders for deliveries to customers' homes; the machines worked for five days non-stop and the project was considered a remarkable success. As reported by *Forbes*, ALOG's smart logistics solutions provided vast networks of conveyor belts, instant scanning of barcodes, and product transfer. The corporate strategy was to offer greater efficiency and cost savings to distribution companies. More Chinese companies are tapping into automated logistics equipment. Research firm *Report Linker* published a report saying that this market had grown 26% year-on-year in China, with total sales exceeding RMB100 billion in 2018.

Additionally, the robotics industry was dominated by the Big Four — Japan-based Yaskawa, US-based Fanuc, Swiss-based ABB, and Germany-based Kuka. For the time being, China did not have a major player in the global robotics sector, but Chinese companies had continued with new developments in AI and that were setting the stage for them to succeed in the robotics field. China-based venture capital firms — Hangzhou-based Yunfeng Capital, Beijing-based Sinovention Ventures, and Shanghai-based GP Capital — had all poured huge investment funds into the development of robotics and smart technologies. It is believed that China's nationwide logistics could achieve 70% automation in the next five to seven years.

On a side note, the Big Three US automakers — GM, Ford and Chrysler — along with the producer of electric vehicles (EV) — Tesla Motors — were expecting to export many vehicles to China as the country had become the world's largest market for passenger cars. In 2017, GM sold more cars in China than in the US. Nevertheless, Chinese automakers were quickly catching up by building high quality vehicles to meet the increasing demands of Chinese buyers while constructing state-of-the-art factories on par with the major automakers in the US, Germany and Japan.

Reuters posted a story about the Zhangjiakou Lynk & Co. Plant that manufactures Geely and Volvo cars at a town northwest of Beijing

in Hebei Province. China's auto giant Zhejiang Geely Holdings Group had invested over RMB12 billion in the factory and installed new generation manufacturing technologies, and deployed robots for its assembly lines with digital quality control systems. The plant employed 1,800 human laborers while 300 robots would work alongside them per shift. The company used Kuka robots to weld bodies to the vehicles, which are the same robots employed by Daimler AG and Mercedes Benz for their auto assembly plants in Germany. US-based Rockwell Automation and German-based Robert Bosch GmbH had installed the new technologies and systems for assembly lines and workstations while unmanned automated machines were situated at workstations. But the real brilliance, the plant's manager Tong Xiangbei told *Reuters*, was that the auto assembly plant could be constructed at any location around the world so long as there was electricity to keep it operational and with adequate roads to deliver the cars to auto sales dealerships worldwide.

China's manufacturing sector has remained resilient. According to *Raconteur*, of the 500 types of industrial products, China ranked first worldwide in 220 types. The country has a total workforce at over 800 million, employed full-time, which is more than double the size of the entire US population of around 325 million. Nevertheless, China faces numerous challenges on the horizon to keep the huge numbers of manufacturing workers employed as the transition to automation would inevitably lead to massive job losses nationwide. China's labor wages are rising and Chinese factories that still require a human workforce are shifting their operations to southeast and south Asia, particularly to the so-called Mighty 5 — Vietnam, Malaysia, Thailand, India, and Indonesia. But the US is expected to overtake China as the Number One in the Global Manufacturer Competitiveness Index by 2020, according to *Raconteur*. That would be a game-changer, but should not come as a surprise since President Trump has focused much of his economic policy to boost the nation's manufacturing sector, while the US has continued to stand tall as a leading innovator in science and technology. Germany has also emerged a strong competitor in advanced manufacturing as well.

Ricky Tung, China Industrial Products and Services partner for Deloitte, was quoted by *Raconteur*¹¹ as saying that Germany had averaged more than 300 industrial robots per 100,000 industry employees, but China averaged just 19 for the same number of industrial workers. But many Chinese factories were not prepared to pay the high costs to go fully automated, since industrial robots were so expensive and “complex IT processes and computerized machines require detailed expertise in various fields, such as automation, engineering and software,” said Tung. The analysis appears pessimistic, and undeservedly so, since many young Chinese are highly-educated, and STEM subjects have been a major focus in the nation’s education system. China’s top-ranking universities, including Beijing’s Tsinghua University, are shining as powerhouses in academia, favoring substantial support for R&D in science and high-tech.

Tsinghua University has garnered recognition as China’s MIT (Massachusetts Institute of Technology) where students can get a top-notch education in science subjects with some of the brightest professors in the world teaching them. China’s manufacturing sector stood well-prepared to move forward in adopting the emerging technologies for mass production, but that had led to over-capacity. The simple explanation was that China’s economy had been driven by its manufacturing for so long that encouraging more domestic consumption would take a number of years before the over-capacity would be resolved by Chinese consumers and businesses.

In any case, Chinese factories that stayed in the country would transition towards automation and its citizens had to be prepared for that. Apparently, US–China trade tensions had accelerated the move to automation. If Hillary Clinton had been elected to the White House, would Beijing have maintained the *status quo* with its economy? The Chinese government, without undergoing an economic crisis, would have had no sense of urgency to change its domestic policy.

¹¹Raconteur, “Could it all be made in China by 2025?” <https://www.raconteur.net/manufacturing/could-it-all-be-made-in-china-by-2025> (September 1, 2017).

President Trump, by declaring a trade war on China, had forced Beijing into action, whether it had wished to do so or not. At first, the Chinese government responded by ignoring the White House threats, falsely assuming that Trump would get impeached. When they realized that this was not going to happen, they had retaliated with strong punitive tit for tat measures against Washington, but President Trump did not back down and, eventually, the two sides called for a trade truce. So let us reflect on how the trade wars were actually a clash of cultures between a democratic and free market US sparring against the socialism with Chinese characteristics on China's side.

Chapter 11

Clash of Cultures: Trump vs. Xi

Socialism means whatever the Chinese Communist Party wants it to mean.

William Callahan, London School of Economics and Political Science.

People who have little experience with power — those who are far from it — tend to regard politics as mysterious and exciting. But I look past the superficialities, the power, the flowers, the glory, the applause. I see the detention houses, the fickleness of human relationships. I understand politics on a deeper level.

Chinese President Xi Jinping speaking at one of his first public interviews.

The truth is, America always has welcomed disruption and disruptors — the rebels, the troublemakers, the ones who see things differently. They invent. They explore. They create. They inspire. They change things. They push the human race forward.

Thomas Hicks Jr., partner at Hicks Holdings LLC.

China to Refuse Neoconservative Demands

Media reports claimed that Xi had urged Trump “to meet halfway” with North Korean leader Kim Jong-un over nuclear disarmament negotiations during a phone call between them to exchange New Year blessings for 2019. But since the phone call transcripts were not released to the public, it can only be assumed that Xi was also suggesting the White House meet Beijing “halfway” with ongoing bilateral trade talks that had become much more productive and amicable during the 90-day trade truce period from December 1 to March 1. Apparently, Washington might have been raising unrealistic expectations that the

Chinese government would buckle under all the demands that were listed by US Trade Representative Robert Lightizer.

Meanwhile, John Bolton, the most influential neoconservative thinker in the Trump administration, had expressed alarm over allegations that China's PLA Navy appeared to be seeking to militarize and colonize disputed territorial waters in the South China Sea. Bolton had threatened to deploy US Navy battleships to sail into hot zones to reassert claims of "safe passage at sea in international waters." If Washington had made good on such threats, it could have provoked a war and imminent demise of US–China trade talks. Although Beijing was willing to bend on a number of economic demands issued by Washington, any attempt to make China change its long-held political policies over territorial rights would likely go unanswered. If Trump at the behest of Bolton had required China to implement democracy and pro-Western human rights values for the country, one should not have expected Xi to sign his name to that kind of bilateral trade deal.

Beijing had continued to reaffirm its commitment to one-party rule led by the CPC, while its top leadership would continue to be appointed by the Party. This governance policy in China will not change any time in the near future. Beijing stood more than willing to scrap any trade or economic cooperation deals that made such demands in a formal written document. If US–China trade talks did collapse, the blame would lie directly at the doorsteps of Bolton and his neoconservative backers in the White House. There was no denying that the neoconservative establishment had willfully engaged in behind-the-scenes efforts to sabotage the improving relations between Washington and Beijing.

The neoconservative movement adhered to the principle that China, Russia, North Korea and Iran were rogue regimes since those nation-states had refused to compromise on their national sovereignty and would not embrace what was known as "liberal democracy" values. In 1997, the Project for the New American Century (PNAC) was established as a charter with 25 signatories, including John Bolton as member, and they had maintained close ties with the American Enterprise Institute (AEI) before folding in 2006. According to the

Institute for Policy Studies, the PNAC charter and its members had adopted a policy of “military strength and moral clarity,” which they claimed was endorsed by so-called Reaganite values. However, Paul Craig Roberts, assistant secretary at US Treasury for Economic Policy under President Reagan, claimed his boss had held the neoconservatives in deep disdain, writing in a commentary:

When Ronald Reagan turned his back on the neoconservatives, fired them, and had some of them prosecuted, his administration was free of their evil influence, and President Reagan negotiated the end of the Cold War with Soviet President Gorbachev. The military/security complex, the CIA, and the neocons were very much against ending the Cold War as their budgets, power, and ideology were threatened by the prospect of peace between the two nuclear superpowers.

I know about this, because I was part of it. I helped Reagan create the economic base for bringing the threat of a new arms race to a failing Soviet economy in order to pressure the Soviets into agreement to end the Cold War, and I was appointed to a secret presidential committee with subpoena power over the CIA. The secret committee was authorized by President Reagan to evaluate the CIA's claim that the Soviets would prevail in an arms race. The secret committee concluded that this was the CIA's way of perpetuating the Cold War and the CIA's importance.¹

Ironically, neoconservatives who had relentlessly criticized the Trump White House, mocking his “America First” policies, would often argue that he should instead have followed up on the aggressive US foreign policy that was led by Reagan. In fact, Reagan had won the Cold War not by waging hot wars directly against the USSR and the PRC, but through increased military spending and pursuing diplomacy as well. Neoconservatives only seemed interested in waging wars with a “damn the torpedoes” attitude. They failed to recognize the value of the art of diplomacy and compromise, and endlessly pushed forward “all or

¹Paul Craig Roberts Institute for Political Economy, “How the American neoconservatives destroyed mankind's hopes for peace”, <https://www.paulcraigroberts.org/2016/04/18/how-the-american-neoconservatives-destroyed-mankinds-hopes-for-peace-paul-craig-roberts-2/> (April 18, 2016).

nothing” demands. Such measures had trapped Chinese trade officials into a corner.

Accordingly, they felt no desire to continue with US–China trade talks in August–September 2018 after Bolton and Navarro had attempted to bully them. Yet, the neoconservatives perceived their strategy to be moral clarity, and considered that compromise was a weakness. When they viewed opponents at the negotiations table as evil villains, they acted much more stubbornly, assuming that they were standing on the side of righteousness. Unfortunately, many people who had been brainwashed fell into similar moral clarity mind traps, just as in China during the Cultural Revolution. The Red Guard Chinese zealots had felt justified in committing crazed acts of violence since they believe they had a moral obligation to destroy those they perceived as their enemies at any and all costs.

Now we return to PNAC and its founding members, all of whom opposed China on the grounds that Beijing stood opposed to implementing liberal democracy within its territories. The PNAC had published a document in September 2000, *Rebuilding America’s Defences: Strategies, Forces and Resources for a New Century*, which highlighted the globalist ambitions of the neoconservative agenda. The document was written and edited by William Kristol, former publisher of the now defunct magazine, *Weekly Standard*; Robert Kagan, senior fellow at Brookings Institution and member of the Council on Foreign Relations; Richard Perle, assistant secretary of Defense for Global Strategic Affairs under President Reagan; and former CIA chief James Woolsey.

Aaron Friedberg wrote a chapter on China, titled “Present Dangers.” He also wrote an article in *Commentary* magazine headlined “The Struggle for Mastery in Asia” in which he predicted the “quite likely” potential for the US to go to war against China, which would erupt over a “single cataclysmic event, such as a showdown over Taiwan,” according to the Institute for Policy Studies. Friedberg warned that Beijing was “pursuing regional hegemony” on the Asian continent and beyond. He blamed US companies which had invested in China as part of the problem. Friedberg and other neoconservatives, including

Michael Pillsbury, senior fellow at the Hudson Institute, had been well known to speculate that China's economic rise was an attempt by Beijing to boost its military on the sly.

They insisted that Beijing was pushing ahead on a 100-year plan in which the strategy was to feign economic cooperation and trade deals with other nations in order to make China prosperous, and then tap into rising tax revenues to build a very strong PLA. In 2015, Pillsbury authored a book, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower*. He argued that after the country had enjoyed a few decades of rising prosperity, Beijing would later shift to a "war hawks" strategem that had allegedly begun with the ascendancy of Xi as China's President in 2013.

Overwhelming evidence has proven their thesis as contrary to the facts. Although Xi did support the PLA's modernization, how did that differ from President Trump when he signed the Pentagon's largest budget in US military history on March 2018? Another contradiction with the Pillsbury thesis was that if indeed Beijing had entered the war hawks stage, why would Xi support a trade truce with Trump if Beijing favored a new military-oriented policy? Yet, as noted earlier, certain people, particularly neoconservatives, had lived under a mindset in which they believed in an alternate reality with panic-stricken fantasies about a Red China menace which had been totally ingrained in their obsessive thoughts. They struggled to separate fact from fiction and refused to do so.

The only truth for them about China was that Beijing was evil, and they perceived all others who thought otherwise to be wrong. The poster boy for the neoconservative movement that had prevailed under the Trump administration was none other than Bill Kristol, a frequent guest and commentator for the Washington Beltway TV news and talk shows circuit. *The Week*² had posted an article pointing out that Kristol had gone on a "tweetstorm" demanding regime change in China. Kristol had written, "The goal of freedom with its noble simplicity and

²The Week, "The continuing lunacy of the neocons", <https://theweek.com/articles/809540/continuing-lunacy-neocons> (November 28, 2018).

even quiet grandeur ... gives meaning to the American experiment.” The arrogance of neoconservative thinking was that they did not view sovereign nations as independent nation-states, but simply part of the “American experiment” that either welcomed “liberal democracy values” or refused to do so. To view China as an “American experiment” was deeply insulting to the hearts of Chinese citizens.

In the halls of Capitol Hill, the leading China war hawk appeared to be Senator Marco Rubio (Florida). He came from a family of Cuban ancestry, so it was understandable that he viewed the Communist Party with much suspicion. When he had campaigned for the Presidency in August 2015, he delivered a speech at the Foreign Policy Institute³ in New York where he declared China an “authoritarian threat” and the “most significant challenge to the preservation of American global preeminence.” He called for the deployment of the US Navy to patrol Chinese waters and to blow up their ships, using the logic that it was better to wage war on China when they were weaker, according to *Vox*.

Rubio had served as a sitting member of the US Senate’s Foreign Relations and Intelligence Committee. Rubio and other neoconservatives, who held strong anti-China viewpoints, had labeled themselves as the “Blue Team,” according to *Vox*. The Blue Team members included influential thought leaders, politicians, think tanks and NGOs. They were: former members of the now-defunct PNAC, AEI, Hudson Institute, National Endowment for Democracy, Crisis Group, Bill Kristol, John Bolton, Michael Pillsbury, Peter Navarro, Robert Kagan, Max Boot, etc. But interestingly enough, one of the leading neoconservative thinkers of the early 1990s, Stanford University Professor Francis Fukuyama, had disavowed his prior neoconservative inclinations in 2018. He is the author of the highly-acclaimed *The End of History and the Last Man* and had become famous for writing, “What we may be witnessing ... is the endpoint of mankind’s ideological evolution and universalization of Western liberal democracy as the

³Vox, “Marco Rubio’s little-noticed China speech shows the GOP is still the party of the neocons”, <https://www.vox.com/2015/8/31/9233721/rubio-china> (August 31, 2015).

final form of human government.” But last year, he authored his ninth book, *Identity: The Demand for Dignity and the Politics of Resentment*. He argued that globalism and the demand for a worldwide “liberal democracy” went against our human nature and such notions were not destined to succeed in the long run. He had even praised China’s state-capitalist model in an interview with the London-based *New Statesman*:

The Chinese are arguing openly that it is a superior one because they can guarantee stability and economic growth over the long run in a way that democracy can’t... if in another 30 years, they’re bigger than the US, Chinese people are richer and the country is still holding together, I would say they’ve got a real argument.⁴

With the exception of Bolton and Navarro who were employed by Trump at the White House, nearly all neoconservatives and related think tanks held deep bitter resentment against Trump. This led many to ask, who hated the US President more: Democrats, NeverTrumpers, Deep State, fake news, or neoconservatives? Accordingly, the US President had no compunction in ignoring their interests. But rest assured, China did not harbor malevolent plans to embark on globalist domination with a Marxist agenda since capitalism, not socialism, was the strongest driver of growth for the nation’s economy.

Capitalism with Chinese Characteristics

Many Westerners, as well as others who were not from China and had never visited the country, when asked about their thoughts on the country, are likely to believe that China is full-blown communist. Who can blame them, when the People’s Republic of China has always boasted of its one-party rule under the Communist Party of China (CPC)? Additionally, Chinese officials, at all levels, are expected to make frequent use of the phrase “socialism with Chinese characteristics”

⁴New Statesman, “Francis Fukuyama: ‘Socialism ought to come back’”, <https://www.newstatesman.com/culture/observations/2018/10/francis-fukuyama-interview-socialism-ought-come-back> (October 17, 2018).

when attending public events and giving speeches. If a foreigner did visit China and walked into any city, town or village, one would see images of CPC propaganda plastered all over, such as on billboards, signs, as well as photos of China's current leadership hanging on the walls in Chinese households, offices, shops, restaurants and elsewhere.

If somebody had turned on a TV in China, viewers would stumble across many programs about PLA soldiers fighting Japanese forces during World War II. At other times, there would be broadcasts of PLA ballet among many other TV shows and movies that highlighted poignant portrayals of Chairman Mao and the founding fathers of the PRC. With the constant bombardment of visual and audio CPC messaging, one could reasonably conclude that the Chinese were die-hard Marxists supporting the Long March for Communist glory. Nonetheless, outward appearances can be deceiving, and when a foreigner has lived long enough in China, they eventually discover that inside the heart and soul of hundreds of millions of Chinese is not fervent support for communism, but for capitalism instead. Chinese people have demonstrated an overwhelming yearning to earn more money as one of the primary goals in their lives.

The real story is that China is communist in name only, and when speaking to many ordinary Chinese and asking them to describe the nation's economy; they are more likely to call it "state capitalist" rather than Marxist. But China's SOEs have somehow stayed intact during the nation's reforms and opening-up, and some of them have become very profitable or, at the very least, have generated large capital resources to provide the Chinese government with abundant tax revenues. Since they are so successful, it is hard for Beijing to privatize them, although this is required now that China has gained membership to the WTO.

For a long time, Beijing had ignored WTO rules without facing serious consequences. It has taken the recent resurgence of US-China trade talks for China to show a willingness to address SOEs and their significant impact on the nation's economy, as well as on government affairs. Perhaps Beijing had earlier concluded that SOEs were too big to fail and hence shutting them down or eliminating subsidies would have caused more harm than good. Yet, when Washington had imposed

higher tariffs on Chinese imports and called for Beijing to restructure its SOEs, after experiencing the painful aftermath, China offered to make some changes to cut subsidies to SOEs in efforts to reach a US–China trade agreement. If SOEs were privatized, China could be recognized by the WTO, EU and US as a true free market economy. Therefore, it was more beneficial on their part to agree to such measures.

The Chinese economy has already enjoyed huge success playing to the tune of capitalism. As of September 5, 2018, according to *IG*, the Shanghai Stock Exchange emerged as the world's fourth largest stock market in market capitalization, surpassing the Hong Kong Stock Exchange, London Stock Exchange and Singapore Stock Exchange, and standing only behind the New York Stock Exchange, NASDAQ and Tokyo Stock Exchange. Meanwhile, China, as the world's largest trader, is the leading player for imports of raw materials, accounting for over half of the world's aluminum imports and nearly half of global imports of nickel, copper, zinc and steel. Despite the US having been recognized as the most dominant capitalist country, US GDP growth rates had sputtered in recent years compared with China's, as reported by *Axios*.

From 2000 to 2017, China's total GDP had grown 910%, while US GDP had risen 44% over the same period. It seemed that the future of capitalism would be in China, not the US, unless President Trump succeeds in spurring higher growth rates for the US economy. Nonetheless, China faces some headwinds as reported by the *South China Morning Post*.

China is sitting on an overload of collateralized loans with about one-third of all loans, amounting to RMB4.4 trillion, at or near forced liquidation levels. This would explain why, from January to October 2018, the Shenzhen Composite Index plunged, losing 33% in value with RMB7.6 trillion getting wiped out. The Shenzhen Stock Exchange was hit harder than Shanghai's stock market, since the publicly-listed shares were smaller companies that relied on selling shares and bonds to raise capital, whereas larger Chinese companies and SOEs had access to more liquidity with loans from state-owned

banks. In 2016, 78% of all loans from Chinese banks were made to SOEs, but in 2013 the ratio of bank loans to the public and to private enterprises had been 60:40. The PBOC's tight monetary policy had likely caused the sudden transformation. If a US–China trade agreement were signed, Washington could request that Chinese banks should provide more loans to individuals and private companies while suggesting tighter restrictions on lending to SOEs, particularly those competitors of US-based firms.

Over the past few years, Chinese citizens have expressed much optimism over conditions in the domestic economy and how Beijing had maintained some control over market forces. In spring 2014, the Pew Research Center conducted a Global Attitudes Survey which disclosed that the Chinese held the world's most positive views on the status of their national economy. According to survey results, 76% of Chinese respondents said that life was better for them under a free market system, 89% of Chinese believed the economy was headed in the right direction, and 85% of them said the younger generation of Chinese were expected to do better than their elders. If one still held doubts about capitalism flourishing in the country, 42% of Chinese had complained about the widening income inequality gaps in the country.

As reported by *Asia Sentinel*, Peking University had conducted a study claiming that 25% of the poorest Chinese owned only 1% of the country's aggregate wealth, while the richest 1% owned one third. Additionally, residential property prices in China's cities were making it harder for poorer families to raise enough money to purchase their own apartments. It was a Chinese custom for the groom to buy a home for the bride-to-be and to deliver a dowry to her parents or guardians. Accordingly, poor Chinese families were finding it more challenging to marry off their sons and provide a house for them.

Yet, China's strong education system offers good opportunities even for children from impoverished family circumstances. Chinese culture traditionally holds a strong appreciation for education as parents place strong emphasis on a child's academic success. Children residing in rural farming villages are also expected to study hard and to prepare for

college entrance examinations that would play a significant role in deciding their future professional careers. Students who graduate from the most-respected universities enjoy better opportunities when applying for jobs since HR administrators for companies would rank them higher than other applicants.

Chinese universities have also improved the quality of education for students seeking Master degrees in Business Administration, commonly referred to as MBAs. Ironically, Chinese business schools have earned a remarkable reputation for endorsing capitalism over socialism by teaching practical methods to achieve success in the business world. Chinese textbooks even teach that the best way to resolve labor disputes with strike breakers is to call the police and to have them arrested rather than to discuss grievances at the negotiations table, according to a report from the *Japan Times*.

Remnin University, with its campus in Beijing, was the first institute of higher learning in China to offer an MBA for students. Students could learn about the business role of HR and how to work in organizational structures while getting tips on how to navigate China's complex business environment. Enrollment for the program is about 2,000 students each year with about 100 of them coming from foreign countries. The main topics they learn are how to grow wealth for the companies that hire them or how to start their own businesses as entrepreneurs. Remnin University's MBA and the 300 other business schools nationwide play a crucial role in inspiring and educating future generations of the Chinese business community. As of December 2018, over 370 billionaires were living and working in China.

Business schools were established at all major universities as well as independent executive institutes, which includes the world-renowned Cheung Kong Graduate School of Business funded by Hong Kong-based Li Ka Shing Foundation. Jack Ma is listed as an alumnus and the school has garnered a reputation as one of the best business schools for networking. Many successful Chinese business executives and entrepreneurs have attended the school not just to learn from the professors and coursework, but to build on friendships, since *guanxi*, or networking, has remained of paramount concern for Chinese business people.

Consequently, capitalism, not socialism, has taken top priority in China's economy. To ease fears that this is not the case, Beijing has endeavored to open the country to more FDI and taken concrete measures "to improve the property rights system, deepen economic reforms and promote high-quality development," according to a commentary published by *Xinhua*,⁵ while marching ahead to "build a more attractive investment environment, strengthen IP rights and to boost imports."

The Central Committee of the CPC declared at the 18th National People's Congress in March 2018 that the "market [was] to play a decisive role in resource allocation." A key driver of China's transformation to a more free market economy was led by Chinese President Xi. Let us take a closer look at his family background and political rise to stardom to understand what had inspired him.

Xi Jinping: Reformist and Conciliator

The Chinese government has closely guarded the privacy of high-level officials, only releasing scant details about their families, childhood, adolescent years, as well as coming-of-age since they consider such information as state secrets. This is also part of Chinese culture. Anyone spending time living, working, or studying full-time in the country would soon discover that when communicating with the locals, they very rarely open up about their parents or personal affairs unless they trust the outsider talking to them. In contrast, many Westerners, when chatting with friends, colleagues, or even total strangers in public areas, quite openly discuss family matters, tell jokes about their parents, or seek advice to resolve personal problems.

Many Westerners, by nature, are not shy about disclosing their details of their personal lives and tense family relations, even when knowing full well that such actions could lead others to gossip or mock them behind their backs. The Chinese view this type of behavior with

⁵Xinhua, "The West once again gets it wrong on China: Article", http://www.xinhua-net.com/english/2018-09/08/c_137454436.htm (September 8, 2018).

horror, fearing a loss of face that would place their family's reputation at risk. When the Chinese media release few details about the personal backgrounds of their leadership, such as members of the Politburo — the seven members of the CPC Central Committee which as of January 2019 included President Xi and Premier Li — few Chinese citizens raise concerns about the so-called lack of transparency coming from the government.

In 2019, President Xi was the recognized state leader serving his second term in office. He held several official titles: President of China, Secretary of the CPC, and Chairman of the PLA Central Military Commission. By holding these leadership positions, he may be viewed as the face of China and figurehead for the government. But despite what many Westerners may think, Xi is not a dictator who can decide on laws and government policy without hindrance and on his own terms.

The Politburo, according to Chinese constitutional law, comprising members who may have different viewpoints on government policy, must vote with unanimity on key measures and laws before submitting the new directives and regulations to the Two Sessions. This is held annually in March for about two to three weeks when the NPC and CPPCC convene to vote on such matters. By understanding this, outsiders can see that the Chinese government is set up more like a business in which the President serves as chairman of the Board of Directors. Xi is the visible head of China, but he does not hold all-encompassing powers. When many Fortune 500 companies elect a CEO, the newly appointed leader is more likely to play it safe since Board members will have sought to appoint a smart, steady and good person for the position. Major corporations are reluctant to hire mavericks, disruptors and rebels as CEOs unless the company is facing turmoil and in need of a shakeup. Accordingly, the Chinese Politburo, when appointing Xi to China's leadership position in 2012, was looking to appoint a safe and steady man to take charge of the country. At least, it seemed that way at the time.

Xi's father — Xi Zhongxun — had risen to high levels in the Chinese government and was known as a comrade-in-arms of Chairman Mao

during the Long March amid China's Civil War, which eventually led to victory for Mao's army and the founding of the PRC in 1949. Xi's father had a fighting spirit, but often ruffled the feathers of other government officials as he was a liberal reformist, and was ostracized from power during the Cultural Revolution. As a child, Xi had grown up as a princeling living in luxury, enjoying the safety and comfort of the compound he resided in along with other high officials and their families.

However, his father's fall from political grace disrupted this charmed lifestyle and, at the age of 15, he was forced to wear a dunce's cap and walk through a parade of jeering people amid the very height of the Cultural Revolution (1965–1975). He had expected to be jailed, but the prisons were so crowded back then that he was sent instead to work at an agricultural commune as a common laborer in a rural village — Liangjiahe, in western China's Shaanxi Province — where he had to live in a cave for six years, according to the *Encyclopedia Britannica*.⁶ These disturbing experiences instilled in him a character stamped with fortitude, resilience, persistence, loyalty, steadfastness, compassion, empathy, an ability to work hard, stoicism, and a vision of optimism that sustained him through the dark times. Despite these experiences, Xi's character grew stronger, and he still maintained remarkable love and deep respect for his father.

He had been transformed from a weak boy into a courageous man who could be trusted to lead people in times of tragedy and chaos, inspire confidence among the people working for him, and not fall into the trap of someone who would become resentful when undergoing difficulties. He understood that his very survival in the cave in Liangjiahe had depended on his strong character. When finally reunited with his father, he came to further appreciate Xi Zhongxun's good character traits, but also knew that playing the maverick role could cause more harm than good for his future political prospects. He knew that in order to rise higher in government establishment circles, he could be a reformist, but he had to act a conciliator as well.

His traumatic life experiences as an adolescent and young adult did explain why, when speaking to President Trump on the phone, according

⁶Encyclopaedia Britannica, "Xi Jinping", <https://www.britannica.com/biography/Xi-Jinping> (March 19, 2018).

to publicly-released transcripts, he frequently used the phrase “put yourself in the other person’s shoes” when explaining to his US counterpart that Washington should halt sanctions against Pyongyang since Kim Jong-un had already shown sincere efforts to denuclearize, and he also called for US trade officials to meet Beijing “halfway” on a trade deal. Xi had understood real suffering and recognized that when one had endured severe trauma caused by the evil actions of others, the victims could either choose to respond with bitterness and depression that could stigmatize them for a lifetime, or they could forgive their tormentors and to move on with their lives in a proactive and positive manner. So just step into Xi’s shoes when he was a boy at 15.

He had had friends and enjoyed a high-class lifestyle. It seemed that he would be destined for a life of ease, but all of a sudden his former friends were shouting at him, he was hounded by people whom he had thought loved him, and he was chased out of the Beijing compound. A few days later, he found himself in a poverty-stricken village far away from China’s capital city. He then discovered that he must spend the next few years toiling in the fields, such as carrying 100-kilogram buckets of water on his shoulders, and would have to sleep in a cave, and he had no choice but to accept such conditions although he was ill-suited for the role as a common laborer of the fields at that time.

Due to the unfortunate circumstances of his lifestyle, he found happiness and friendship in books. Reading books became his new hobby and passion since that would alleviate the daily stresses that he was forced to endure. The books he read would served to transform his life and inspire him, leading him to decide not to pursue the path of bitterness and acrimony.

Upon his formal return to Beijing at the age of 23, he enrolled at Tsinghua University, where he graduated with a B.A. degree in chemical engineering. Both his predecessors, former Presidents Jiang Zemin and Hu Jintao, were also engineering students. It was commonly assumed that Chinese officials should view the world in a more logical and practical manner, and by studying math, engineering and sciences, government leaders would be more inclined to analyze in linear patterns, see a problem, and fix it.

Engineering was a complex subject, just like politics; but to connect engineering with political solutions, engineering theories had a serious flaw. A politician with engineering learnings and training would often ignore emotional concerns when seeking solutions on political matters. By relying too much on logic, it was tougher for them to see the negative emotional impact of their plans. In their minds, if you have a problem, fix it and move on; but those harmed by the solution would often react with much emotion, and that should be expected.

The strength of Xi's character — stoic, hardworking and deep thinking — explains why, after getting formally accepted into the CPC, he had moved up the ranks so swiftly. Many believed he was naturally destined for China's top leadership role. According to the *Encyclopedia Britannica*,⁷ here is his timeline:

- 1974 — Accepted as new member of the CPC, enrolled at Tsinghua University.
- 1979 — Graduated from Tsinghua, hired as personal secretary to Geng Biao, Vice Premier and Minister of National Defense (1979–1982).
- 1982 — Appointed as Deputy Secretary for CPC Hebei Province.
- 1985 — Appointed as Party Committee member and Vice Mayor of Xiamen.
- 1987 — Married famous Chinese folk singer Peng Liyuan.
- 1995 — Appointed as Deputy Provincial Secretary for Fujian Province.
- 1999 — Appointed as acting Governor for Fujian Province.
- 2002 — Appointed as acting Governor for Zhejiang Province.
- 2007 — Appointed as Shanghai's CPC Party Secretary.
- 2008 — Appointed as China's Vice President.
- 2012 — Appointed as General Secretary of the CPC.
- 2013 — Appointed as Chairman of the PLA Central Commission and President of China.
- 2018 — Re-elected for 2nd term as China's top leader.

⁷ *Ibid.*

In 2018, the NPC passed a bill eliminating term limits, so Xi, technically, could become President for life. “Xi Jinping Thought” has been officially recognized in the PRC Constitution, which champions his ideals and achievements and places him on par with Chairman Mao and late President Deng.

Xi Jinping’s rise in power had seemed inevitable after he was welcomed into the ranks of the CPC in 1974. In his speeches and public comments, he frequently spoke about the necessity for people to stay persistent when confronted with challenges, which explains how he had overcome the traumas that had beset him in his youth. With conviction that others should follow in his footsteps to rejuvenate the Chinese nation, he encouraged the people to stay productive. In a speech about China’s model workers, he said:

Although the way ahead is rugged and the tasks of achieving reform, development and stability are arduous, we are confident in our future. The working class of our country must play an exemplary and leading role in taking the Chinese path, fostering the Chinese spirit and building up China’s strength, and make concerted efforts to realize the Chinese Dream.

People make history, and work creates the future. Work is the fundamental force driving the progress of human society. Happiness does not fall from the sky, nor do dreams come true automatically. To achieve our goals and create a bright future we must rely closely on the people, always act in their interests, and work in an industrious, honest and creative way. We often say, “Empty talk harms the country, while hard work makes it flourish”. This mean we must first get down to work.⁸

Xi’s cave years explain much about his outlook on life and how he faced the turbulent storms that subsequently ensued when Trump declared trade wars on China. After Trump had enacted higher tariffs on Chinese imports, it seemed that prevailing pressures on the country were sparking concerns of an imminent depression to strike China’s economy. But Xi stayed calm when others, including some of his

⁸Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 47.

closest aides, were beginning to panic. Perhaps, when Xi was first made aware of Trump's boastful tweet that trade wars are "easy to win", he might have felt a cold fury since the comment deeply insulted his country and his firm resolve to fight for his nation's interests. He himself had overcome insurmountable difficulties to emerge as the President of China, but Trump dismissed the trade wars as easy to win.

Yet, despite Xi's strong and determined will, in November 2018 when US-China trade wars were reaching a fever pitch of fire and fury on both sides of the negotiations room table, Xi chose to act as a conciliator. He picked up the phone and called President Trump to ask if they could reduce tensions, find common ground, and move forward to reach an agreement. The phone call surprised Trump since he was not expecting it that day, but after both leaders had a real heart-to-heart chat, suddenly Xi was friends with Trump again, which shocked the world.

Was it true that Trump and Xi were sincere friends, or had it been a ploy to deceive Trump into accepting a trade truce a month later? Xi was stoic, Trump was passionate; Xi was introverted, Trump was extroverted; Xi hated "empty talk," Trump never stopped talking. Accordingly, many experts had expressed doubts that Trump and Xi could get along even if for the common good and to achieve win-win benefits of both countries. But upon closer inspection of Trump, his psyche, and some of the events that had shaped his character and life, one could see that he and Xi share some remarkable similarities as leaders of their respective nations.

People's characters can be largely shaped by their experiences and surroundings as children and adolescents before they become adults and mature as individuals. By the time they are well-established in their professional careers, usually in their thirties and forties, the essence of who they are has fully materialized. Accordingly, Xi in his thirties and forties was already blazing a trail in his political ascendancy that would eventually lead him to become the President of China. He was appointed to government posts at all levels, from village, township, municipal, provincial, and to central government where he served as Vice President and, eventually, President.

He climbed up the ranks from the bottom to the top and had a reputation for working hard and accomplishing his goals and tasks, and shunned drinking and carousing late into the evenings. Instead, he preferred reading books at home at night, which explains why he had pursued a crackdown on corruption with much vigor after being sworn in as President.

In his book, *Xi Jinping: The Governance of China*, he is cited as frequently speaking about the culture of corruption among Chinese officials, and he had deep understanding of what was going on. In 2007, corruption among local officials in Shanghai had become so rife that the municipal's pensions were wiped out. Xi was assigned to investigate, root out corrupt officials, and restore order as the city's Secretary of the CPC. Xi as reformist was well-prepared to eliminate the scourge of corruption and collusion in Shanghai. As such, one can connect the dots and compare Xi with President Trump and his 2016 campaign pledge to "drain the swamp" in the Washington Beltway and Wall Street.

Trump: Disruptor and Deal-Maker

President Trump had shown sincerity in wanting to clear out corruption from the US capitol city, which could explain why his detractors were so determined to fight against him. Trump, a lifelong disruptor, was going to change the *status quo*. For corrupt people, that was the worst fate that could befall them since they stood at risk of going to prison, losing their ill-gotten fortunes and, worst of all, losing their power, influence, and status.

Trump was also largely influenced by his father's commanding presence and successful career as a real estate tycoon in New York, accumulating over \$250 million in wealth. He had sought validation by emulating his father and following in his footsteps. As a child, Trump, just like Xi, lived a princeling's life, and it seemed to be his life's ambition to become one of the world's richest men. In the 1980s, when he was in his forties, he already appeared to have achieved his goal.

In the booming 1980s, Trump had moved his office from Brooklyn to Manhattan and he scored major deals by developing the Grand

Hyatt Hotel and Trump Tower in his beloved city. The deals had catapulted him to fame, and a publisher persuaded him to co-author a book with Tony Schwartz to give insights on his business acumen. *Trump: The Art of the Deal* was a *New York Times* bestseller for 13 weeks and stayed in the Top 10 for 48 weeks. Trump emerged as a household name and was viewed by many as a leading business mogul. In 1981, when Barack Obama was a student at Harvard Law School, he said in one of his academic papers that “the American dream” was “to be Donald Trump.”⁹

His fame rose even more when he became the host and star of the reality TV show, *The Apprentice*, which enjoyed high ratings from 2005 to 2014, where contestants competed to gain employment in the Trump organization. The TV show’s most memorable scenes were when Trump screamed, “You’re fired!” at a contestant who would be eliminated at the end of each show. Although, it seemed that Trump had led a charmed life, that had not always been the case. When Trump was a teenager, he was not sent off to an agricultural commune in western China, but before entering 8th grade he was packed off to the New York Military Academy in the Hudson Valley. When he first showed up there, just like Xi in Langjiahe, he appeared ill-suited for his new surroundings, according to NPR:

Retired Col. Ted Dobias remembers the tall, lanky kid who showed up at his dormitory.

“I put [him] down at the end of the hall. He didn’t know how to make a bed. He didn’t know how to shine his shoes. He had a problem, you know, with being a cadet. You know, being a cadet, you gotta take care of yourself,” Dobias said.

And Trump the cadet didn’t quite know how, at first. Dobias had a reputation for being one of the school’s toughest instructors. He was a hardened World War II veteran who made it clear to Trump — he didn’t care who his daddy was.

⁹Daily Caller, “Obama once said the American Dream is to ‘be Donald Trump’”, <https://dailycaller.com/2017/05/12/obama-once-said-that-the-american-dream-is-to-be-donald-trump/> (May 12, 2017).

When he got out of line, he got the same treatment like everybody else. His name was Donald Trump, like Johnny Jones. It was all the same, Dobias said. “Nobody was different. We treated everyone alike.”¹⁰

Trump also knew what it felt like to be an outcast and at a place where escape was never an option. At first, he had struggled to adapt, but later on, he excelled at making friends and playing sports, which made him a popular student on campus. He learned to accept discipline and suffering while learning to become a leader of men. Trump attended the military academy for five years before setting off for college and embarking on his professional career as a globe-trotting property developer. His deal-making skills and talents would set him apart as one of the best and toughest negotiators in New York, but he did make some blunders.

Yet, Trump did not allow tragedy and misfortune to dampen his optimism. He believed in himself, bordering on being arrogant, while his critics thought he was the classic case of a narcissist. He would rise to huge heights of business glory, then crash, but that never stopped him. He often told people, “never give up, and believe in yourself.” He found nothing wrong with bragging, because you could not expect others to do the bragging for you. Trump was filled with such a grand vision for himself and his perceived abilities that many would consider them “delusions of grandeur,” but he was an unstoppable force. Failure could not hinder his willpower to succeed on the grandest scale. Many believed that the biggest difference between Xi and Trump was that the US President never stopped bragging, and the Chinese President was not known for braggadocio.

However, the contrast was due to cultural differences: Americans were expected to talk with swagger, while the Chinese were raised to see that as empty talk and to refrain. Trump’s overweening ambitions, big mouth, and brimming self-confidence demonstrated the essence of

¹⁰National Public Radio, “This is where Donald Trump played by the rules and learned to beat the game”, <https://www.npr.org/2015/11/10/455331251/this-is-where-donald-trump-played-by-the-rules-and-learned-to-beat-the-game> (November 10, 2015).

the true American spirit, writ large, while Xi's quiet confidence, soft-spoken nature, and face of calm even when chaos was swirling around him showed how the Chinese wished their leaders to appear as symbols of strength. The image of Chinese masculinity was about saying few words but standing resolute, prevailing over adversity without complaint, and being the rock that no person or circumstance could crack or tear asunder.

Trump and Xi were both strong leaders in their own special ways. President Xi had waged war against corruption and Trump was trying to "drain the swamp," but with little success thus far. Yet Xi did not have to worry about voters kicking him out of office or the local media criticizing his measures. As of the end of 2018, over 1.6 million government officials in China had been disciplined, while Beijing's Qincheng Prison, where many corrupt officials were incarcerated, was overcrowded. The prison was dubbed "tiger cage" after Xi made a speech vowing to stop corruption by "striking tigers," meaning top officials who were corrupt, while he would "swat as flies" those at low levels. Xi is quoted in a speech he gave to the CPC Central Commission for Discipline Inspection as saying that:

We should continue to catch "tigers" as well as "flies" when dealing with cases of leading officials in violation of Party discipline and state law as well as misconduct and corruption problems that directly affect the people's interests. All are equal before the law and Party discipline; whoever is involved in a corruption case must be thoroughly and impartially investigated.¹¹

It can be seen that Xi had a passion for using catchy phrases when speaking in public as well. Hence, it was not so far-fetched to recognize some similarities between Xi and Trump. When Stephen Bannon delivered a speech in Hong Kong in September 2017, he was asked what Trump thought about Xi. Bannon was quoted as saying, "I don't think there's a world leader that President Trump respects more than

¹¹Jinping Xi, *Xi Jinping: The Governance of China, Vol. I* (Shanghai, China: Shanghai Press, 2015), 429.

the president of China.”¹² Apparently both leaders had an indomitable willpower and were known as workaholics with “never say die” attitudes. Despite Trump’s fiery nature, he was a businessman first and foremost. In *Trump: The Art of the Deal*, he explained his strategy for negotiating. Here were a few of his quotes:

My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I’m after.

Leverage: don’t make deals without it. Enhance ...

...because much more often than you’d think, sheer persistence is the difference between success and failure.

The worst of times often create the best opportunities to make good deals.¹³

Trump had entered US–China trade talks from the perspective of a businessman who was both a disruptor and deal-maker. Perhaps, when Xi first knew that he would have to confront Trump, he might have been dismissive about it. After all, Trump was most famous for starring in a reality TV show before entering the White House, and Trump’s lifelong image was as a mega-rich business tycoon, which could have led Xi to conclude that his US counterpart was a lightweight — a man born with a silver spoon in his mouth and a habitual braggart. It was possible that Trump’s reputation as a womanizer, jet-setting party-goer, and being accustomed to luxuries could have reminded him of a few corrupt Chinese officials that Xi had already sent to the “tiger cage.”

If Xi underestimated Trump, the fault was with Xi, not Trump. Xi and his trade officials had relied too much on US media reports that had depicted Trump as a clown, a crazy man, and soon destined for impeachment as President. The Chinese should have conducted a more thorough analysis on the Trump White House when preparing their

¹²The Guardian, “Steve Bannon heaps praise on Xi Jinping during ‘stalking horse’ Hong Kong trip”, <https://www.theguardian.com/us-news/2017/sep/13/steve-bannon-heaps-praise-on-xi-jinping-during-stalking-horse-hong-kong-trip> (September 13, 2017).

¹³GoodReads, “*Trump: The Art of the Deal* quotes”, <https://www.goodreads.com/work/quotes/1224415-trump-the-art-of-the-deal> (Accessed on April 21, 2019).

strategy to negotiate a better trade deal. Nevertheless, when Xi called Trump in November 2018, the Chinese President discovered there was more to the US President than what US media reports were saying about him. Xi learned that he had met a man whom he could really make a deal with and, as such, negotiations had made remarkable progress afterwards.

As of March 1, 2019, the two countries had yet to sign a formal document on trade terms, but with an extension of the trade truce for another 60 days, both sides were getting closer to achieving greatness. Hence, in the 12th and final chapter, let us explore how Washington and Beijing could sign a trade agreement that would forge a partnership to make peace and prosperity prevail between both nations, as well as be like a breath of fresh air for the world.

Chapter 12

The Art of a Win-Win Trade Deal

I've seen people that are extremely brilliant and they don't have the staying power. They don't have that never give up quality. I've always said that other than bad ideas, which is a reason for failure, the ability to never ever quit or give up is something that is very, very important for success as an entrepreneur.

US President Donald J. Trump.

Both the Chinese and American nations are great nations, and both people are great peoples. I believe that, with determination, confidence, patience and wisdom, the two sides will accomplish our goals as long as we keep the overall situation in mind while starting with the daily routine and making constant progress.

Chinese President Xi Jinping, visiting the US on June 7, 2103.

Be audacious and cunning in your plans, firm and persevering in their execution, determined to find a glorious end.

Carl von Clausewitz, military strategist.

Mistakes by Trump and Xi

Was it possible that the US–China trade wars could have been avoided in 2018? Even if tensions between both sides of the negotiations table had boiled over into bitter disputes, could China have found a face-saving gesture to resolve matters before Washington imposed higher tariffs on Chinese imports? What could the Trump administration have done to avoid tit for tat responses from China that harmed American soybean farmers and led to a huge increase of the US–China trade deficit in 2018? Perhaps the US–China trade wars and their acrimonious

aftermath were inevitable, and it began on the day Trump was elected to the White House in November 2016.

Nonetheless, had Trump and his trade officials devoted more time to conducting more in-depth research on the cultural mores of Chinese society, it was possible they could have avoided the vigorous tit for tat retaliation from Beijing. Meanwhile, had Chinese trade officials ignored the constant drumbeat of anti-Trump hysteria originating from the US media and had made sincere efforts to talk directly with Trump and his allies in the White House, China could have convinced Trump not to impose the higher tariffs on Chinese imports starting in March 2018. Let us review the errors on both sides to learn how the US–China trade wars nearly sparked a global financial crisis, a fate fortunately avoided with the 90-day trade truce between both countries which began on December 1, 2018.

On the part of Washington, the stumbling had started right out of the gate on the very first day when President Trump announced the first round of higher tariffs for a designated list of Chinese imports. Trump had tweeted, “trade wars are good, and easy to win.” He was boasting and, worse yet, belittling the resolve of the Chinese government as they had already said they would fight back if necessary. President Xi never claimed he was planning to back down even if Trump had pushed ahead on imposing higher tariffs on Chinese imports. Accordingly, Trump’s bragging had resulted in making Beijing more irate, and ordinary Chinese rallied around Xi, hoping he would respond with fierce retaliation. In Chinese culture, arrogance and boasting are viewed with suspicion, mockery and disbelief.

In the Chinese mind, boasting is perceived as empty talk, and most would assume the braggart was lying. Confucian values play a prominent role in Chinese society, and the Chinese are taught from a very young age to demonstrate humility and harmony in front of others. The Chinese did not take kindly to prideful people saying it was easy to defeat them, especially considering that Chinese civilization had lasted for over 5,000 years while the US as a sovereign power had been around for fewer than 250 years. In *Trump: The Art of the Deal*, Trump claimed that he had read hundreds of books about China and made

lots of money dealing with Chinese business people, so it seemed odd that he would boast about winning an easy victory against them.

Trump was not showing the personal qualities of a very stable genius here. The Chinese economy had not risen to prominence overnight or by accident. A few decades ago, before Deng's reforms and opening up, China was a nation that was struggling under dire poverty. The Chinese had overcome overwhelming obstacles to emerge as the world's largest trading nation and the second largest economy. Trump's dismissive attitude towards them, and that alone, led to severe consequences.

Stephen Bannon also added fuel to the fire even after Trump had fired him as White House chief political strategist. He was traveled the world giving speeches and granting media interviews, giving the impression he was speaking on behalf of the Trump administration. Hence, Chinese government officials were listening closely to his public remarks in order to learn more about Trump's understanding of China. It must have startled Beijing when Bannon argued that Washington was preparing to wage a military "war against China in the next five to 10 years over maritime disputes in the South China Sea." If Bannon had been speaking the truth, Beijing would have had good reasons to walk out on trade talks. Why should one country support a trade deal with another nation that said they would fight a war against them five or 10 years later?

Bannon created another problem when he was quoted as saying, "Donald Trump is not going to back off this. The Chinese are going to blink." He added, "The regime in China is in deep trouble."¹ Yes, it was true that China had more to lose than the US in trade wars and they would have to blink first in order to reach a resolution, but saving face was very important in Chinese society. These comments made China look weak if they agreed to support a trade truce. With regard to who can outlast the other, Chinese culture encourages patience in its citizens, and many Chinese, by nature, appear to have an over-abundance

¹New York Post, "Steve Bannon says China will blink in trade war with US", <https://nypost.com/2018/07/18/steve-bannon-china-will-blink-in-trade-war-with-us/> (July 18, 2018).

of it, unlike many Americans who are more prone towards impatience.

Another error in judgment on the part of Washington was hiring Peter Navarro, who had no prior experience in conducting major business deals, to work for the government to negotiate trade pacts with other countries. By reviewing the excerpts of his books, one gets the impression he was competing against Alex Jones of Infowars infamy in crafting conspiracy theories about China.

Navarro also lacked the professional poise of a negotiator. Numerous media reports claimed that he often screamed at people, and he was witnessed verbally abusing Chinese trade officials. He was also reported to have declared to his Chinese counterparts that the US trade team would refuse to compromise on any matters. It was no wonder that Chinese trade officials had stopped meeting the White House team in September and October as it is not possible to negotiate deals without allowing for give and take in the process. At around that time, Vice President Mike Pence delivered a speech at the Hudson Institute, labeling China as the biggest adversary against US national interests. In other words, Pence viewed Beijing as much worse than Iran or North Korea. Chinese trade officials were not pleased with the comments and issued official statements to rebuke him for attempting to provoke China.

Additionally, the White House should not have relied on the Hudson Institute, a neoconservative think tank, to gather intelligence and analysis on China. Senior Fellows Michael Pillsbury and Seth Cropsey had supported the theory that China was planning to wage war against the US. If Trump wished to sign a trade agreement with Xi, why would he favor researchers who were avowed military war hawks? Navarro's books had also highlighted the idea that the US must fight a war against China in support of Taiwan. White House National Security adviser John Bolton also supported such anti-China viewpoints. If Trump wanted to make better progress with Beijing on trade talks when tensions were beginning to flare out of control, the US President would have been better served by separating the politics from trade talks.

The Chinese government viewed economics differently than its politics. The Chinese were very pragmatic in business, but on political concerns they tended to lean more towards diehard and stubborn positions. That meant they would insist on no US-style democracy in the country, recognition of Taiwan as part of their territory, and no interference in their internal affairs from other sovereign governments. If Trump was looking for an easy victory on a US–China trade deal, he should have just focused on economic matters, not hired Navarro, and stopped Bolton and Pence from meddling in trade negotiations.

Chinese trade officials had also made some huge errors in judgment when confronting the White House. Their first tit for tat response was to halt shipments of soybeans from American farmers. The response sounded logical, but the actions could be seen as a personal attack against US Ambassador to China, Terry Branstad, former Governor of Iowa (2011–2017). Massive shipments of soybeans were regularly purchased by the Chinese government and mainly originated from Iowa farms. Additionally, President Xi's first trip to the US was to visit and stay with a family in Iowa for a few weeks. It was there he attended a party where he met Terry Branstad who was serving as acting governor at that time. Ambassador Branstad had enjoyed wide popularity with Iowa farmers, who were responsible for electing him to power. Since many farmers by nature were shy and suspicious, and it was Branstad who welcomed the Chinese delegation to the state, even at a tremendous risk to his political career.

During the Cold War, many farmers from Middle America held much animosity against the USSR and China. After the collapse of the Berlin Wall, it had taken some time for US agricultural producers to warm up to the Chinese. When Branstad accepted his posting as the US envoy to China, he had to resign from his governor's seat. Trump had appointed him because of his long-time friendship with Xi, and the White House thought that he could mediate any tensions between the two leaders if trade talks disintegrated into bitterness. Ambassador Branstad was neutralized the moment President Xi ordered soybean imports to be canceled. That decision also demonstrated that Xi placed power schemes above his close personal relationship with the former

Iowa governor. In all likelihood, Branstad will return to Iowa with his political career potentially shattered.

When President Xi was first advised to cancel shipments of Iowa soybeans, he should have dismissed the proposal, which he must have known would destroy his friendship with the US envoy. A better strategy would have been for China to impose blanket bans on high-tech devices from California and Washington state, along with deeper restrictions on Wall Street firms doing business in China. Had Beijing utilized that strategy, senior executives from major corporations based in the US would have been begging President Trump to end the US–China trade wars. Instead, Beijing aimed punitive measures on companies that were supportive of Trump, the same people who had voted for and donated to Trump to wage trade wars against China. Beijing had not made a wise decision here and it was difficult to comprehend their strategy.

China's ambassador to the US Cui Tiankai had blundered as well. Within a few months after Trump had entered the White House, Russian collusion stories were swirling all over the Washington Beltway. A media report also disclosed that during the 2016 US elections campaign season, the Chinese ambassador had extended an open invitation to Democratic Party nominee Hillary Clinton. It appeared they had been in close communication with leading figures of her campaign team, but Ambassador Cui had not extended the same invitation to candidate Trump and his top aides. When the incident was exposed to the public, President Xi should have recalled Cui from his posting in Washington and assigned a new Chinese diplomat who appeared more neutral. Cui had also stumbled during an interview with NPR in Washington in October 2018 when a reporter asked him what he thought about Trump and he replied, "I'm confused."

How could such a high-level diplomat posted to a rich and powerful nation make such a statement about the country's leader? Either it was an admission of woeful ignorance or a diplomatic hint that Beijing no longer respected Washington. An ambassador posted to any country should never under any circumstances make a statement like this about the leader of the host country. To add insult to injury, he disclosed in the same interview that he had ordered bulk purchases of anti-Trump

books and advised other Chinese diplomats to read them, which had resulted in higher sales for those authors. That was a direct insult against President Trump.

After that embarrassing interview, Cui should have submitted his letter of resignation to Xi, and Beijing should have accepted it and replaced him. He should have avoided making such statements when talking to reporters. Although he was speaking the truth according to his perceptions, a diplomat was expected to avoid using inflammatory language or make strange public confessions. When requested to use strong language against another sovereign government, they should make it clear that their government had ordered them to talk tough so it would not be deemed as a personal attack on their part.

As mentioned earlier, Chinese government and trade officials appeared to have little understanding of President Trump and had jumped to conclusions based on anti-Trump media stories which Trump had often mocked as fake news. As further proof of this, shortly before the Chinese government announced canceling orders on soybean shipments, a number of media reports were making suggestions to Chinese trade officials, and one of those ideas was that Beijing should only impose higher tariffs on products and goods from pro-Trump states, such as whiskey imports from Tennessee and Kentucky.

This strategy was disastrous for China and humiliated US Ambassador Branstad. American farmers have long memories and it could take years for the Chinese to repair relations with them. One hopes that after Trump and Xi sign a trade agreement, President Xi will schedule another state visit to Iowa and make a grand tour of Middle America to reaffirm a commitment that China is prepared to improve relations with American farmers so as to make China and the US more prosperous together.

Chinese trade officials had underestimated Trump. It seemed that they thought the White House was bluffing when they were warned that Washington was preparing to impose higher tariffs on Chinese imports unless Beijing showed sincere efforts to resolve trade disputes. In hindsight, they were proven completely wrong in their assessments. There was no valid reason for them to conclude that Trump was bluffing, especially since the US President had clearly explained in his book,

Trump: The Art of the Deal, that if you bluff, stand prepared for the other side to call it, and always accept the consequences. Trump only bluffs if he believes the other side would not call his bluff.

Trump knew beforehand that China would call his bluff and so he proved his threats were for real by imposing higher tariffs on Chinese imports to demonstrate that he intended to back his tough talk with actions. When faced with this scenario, the Chinese government had a golden opportunity to avoid facing higher tariffs — they only needed to demonstrate a wish for compromise. However, they refused to do so. If given the same opportunity all over again, they should have shown a gesture of conciliation.

Chinese trade officials had made another blunder at around August 2018 when they began to disengage in US–China trade talks without explaining their reasons to the public or to the White House. Lawrence Kudlow, White House economic advisor, was earlier sympathetic to Beijing, but as they refused to speak with him or the US trade team, even Kudlow grew frustrated and spoke to the media about his concerns. He could not understand China’s behavior and had concluded that Beijing was acting with malicious intent since they did not want to show compromise.

It was later determined that Chinese trade officials were upset at Peter Navarro’s bullying tactics, but they should have at least informed the White House of this, especially Kudlow, since he was hoping to talk to them. If Trump was not listening, the Chinese should have spoken about their concerns in a public forum, explaining the real reasons for halting talks with Washington. Chinese officials going silent had only caused suspicions that they were acting with malicious intent and wanted US–China trade negotiations to fail. Chinese trade officials should not have assumed Trump was destined for impeachment either.

Trump’s Wining Strategy and Fair Demands

Despite President Trump making a number of strategic and tactical errors before and during the US–China trade talks, that should not infer he had no clear plan or objectives in confronting Beijing. Some media reports had even claimed the Trump administration was in

chaos and too disorganized to set up preparations to wage trade wars against China. There was no truth to this theory and Trump had used that to his advantage. As mentioned earlier, he was an avid reader of Sun Tzu's *The Art of War* and had often utilized the principles from the book to develop strategies when challenging his rivals. If anyone could have deciphered Trump's unpredictable actions, it should have been Chinese officials, who were all required to study Sun Tzu when moving up the ranks of power and attending seminars. Nonetheless, they had appeared unable to understand Trump at the early stages of trade talks since they were responding to the White House by following anti-Trump media stories. They really should have known better.

Besides, throughout Trump's business and political career, he had succeeded not on account of luck, but because he believed in the mantra "never give up, never give in." His life served as a living testament that perseverance would be the key to true success. He had become one of the leading property developers in the world although his companies went bankrupt six times. He had won the campaign to the White House when nearly everyone in the media and political experts were forecasting that he was fore-ordained to lose against Hillary Clinton in a devastating landslide defeat. He had time and again proven his naysayers wrong, and it seemed that Beijing was walking into the same trap of underestimating him.

Trump was not going to allow his mistakes to deter him as he was famous for saying:

Sometimes by losing a battle you find a new way to win a war.

I'm competitive, and I love to create challenges for myself. Maybe that's not always a good thing. It can make life complicated.

It's always good to be underestimated.

When somebody challenges you, fight back. Be brutal, be tough.

These quotes indicate that Trump was not only a fighter but relished confrontations. Accordingly, if Beijing thought Trump would be reluctant to fight them, they were sorely mistaken.

Trump had also spoken about the need to challenge China over trade in efforts to establish “reciprocity,” which would have been a face-saving proposal for China to acquiesce to Trump’s trade terms. The concept of reciprocity was about fairness and nothing more. A nation that imposed 25% tariffs on auto imports should not complain if another country enforced the same measures on them. Beijing was charging higher tariffs on US imports than Washington was charging on Chinese imports, and there was no excuse for that since China was amassing hundreds of billions of US dollars in trade surpluses with the US each year. Sooner or later, American voters were going to elect a leader to the White House who would make good on a campaign promise to fight against Beijing on trade, and Trump was that person.

Additionally, Beijing would be contradicting itself when making the argument against reciprocity because fairness was a cherished virtue deserving of support from both sides. When Trump talked about reciprocity and offered to accept “0% tariffs” on Chinese imports and pledged “0% subsidies” to US companies doing business in China, so long as China did the same, it looked awkward for Beijing to say “no” to the deal. But that was exactly what happened. At the same time, President Xi was delivering speeches around the world praising globalism, criticizing protectionism, and promising to open up Chinese markets to foreign companies. Somehow, Beijing’s words and deeds were getting lost in translation, and Chinese trade officials should have done a better job of recognizing such contradictions on their part.

Washington’s request to stop forced tech-transfers was reasonable as well, especially when taking into consideration the argument for reciprocity. The US had never imposed similar regulations on Chinese firms expanding business operations in the US. So long as a foreign-based company was legally registered and had agreed to abide by US law and pay taxes and fees when required, the US market was open to them. Nevertheless, as of March 2019, Washington had made some exceptions, such as banning Huawei and ZTE from operating in the country. But most other Chinese companies were not compelled to sign joint ventures with US companies in order to get permission to set

up shop here. But in China, Beijing had utilized joint ventures to require US technology firms to expose their corporate secrets.

A Chinese company could refuse to partner with a US firm unless the US firm agreed to disclose confidential information. Hence, US companies were unfairly treated when trying to expand into China, but the same requirement was not imposed on Chinese companies expanding into the US market. Accordingly, Trump was justified when asking for reciprocity from China. When high-tech companies could no longer keep their proprietary information a secret, they would be in a vulnerable position. Business rivals would be able to review the details of how certain technologies were developed and copy the process, then sell the same devices at lower costs, placing inventors and developers at risk of going out of business. Such scenarios had already taken place.

China's Sinovel, a wind turbine manufacturer, was working with a Massachusetts-based wind turbine company, American Superconductor Corp, according to NPR.² After gaining access to their secrets, Sinovel went ahead to build their own wind turbines and sold them at lower costs, which resulted in bankruptcy for the US company. In July 2018, a US federal judge ordered Sinovel to pay \$59 million for those misdeeds. Such practices were unethical as well and should not have been condoned, but for many years the Chinese government had promoted similar practices or looked the other way by failing to punish Chinese firms for cheating.

From a tactical standpoint, Trump had appointed the right people for his trade team. The exception to this was the hiring of Peter Navarro as White House trade adviser. Trump's best pick was Robert Lightizer as US Trade Representative, since he was a successful lawyer who had sued and won a number of cases when challenging Chinese companies in the WTO court system. He had acted in a professional manner, not boasting to the media, shunning the limelight, and focusing on the

²National Public Radio, "Judge orders Chinese wind-turbine maker to pay \$59 million for stealing trade secrets", <https://www.npr.org/2018/07/06/626683457/judge-orders-chinese-wind-turbine-maker-to-pay-59-million-for-stealing-trade-sec> (July 6, 2018).

tasks at hand, which was to negotiate the best deal possible to support the US business community. Lightizer was quick to point out to his trade team that China had a long and storied history of making promises to Washington on prior trade deals and then breaking them when they deemed it convenient to do so, while Beijing had allegedly played similar tricks on the WTO.

Amid trade truce talks in January 2019, Lightizer called for the two countries to accept the implementation of a review panel to ensure that, if a bilateral trade agreement was signed by Presidents Trump and Xi, both countries would abide by the contract stipulations. The trade deal should be rules-based and the review panel would have the right to impose punitive measures against either country for failing to follow the rules. Accordingly, Washington or Beijing could re-impose higher tariffs on imports from the other side if the review panel judged in favor of that. It also served as a timely reminder that agreements were only effective when both sides followed through on the expectations. Cheating should neither be allowed nor overlooked. By supporting the review panel, both sides would have a channel to issue complaints, and fair decisions would be expected since the committee would not just be composed only Americans or only Chinese. Members would be from both nations, and, if they wished to seek a neutral third party judge from another country, that would be a good suggestion as well.

Trump's other appointments for his trade team were US Commerce Secretary Wilbur Ross, White House Economic Council adviser Lawrence Kudlow, and US Treasury Secretary Steve Mnuchin. They had performed their duties in exemplary fashion. Although Trump had at times taken to Twitter to criticize Mnuchin for being too soft on China, a good negotiations team needed people who did not always agree on everything. It was inevitable to have trade war hawks as well as doves since they could review information by exploring all angles, while the good cop, bad cop routine was very productive for negotiations too. Many Chinese had learned to appreciate Taoist values, such as the *yin* and *yang*, opposition forces as a way of life, and the carrot and stick approach was easily understood by them as that had helped to restore balance.

Kudlow and Mnuchin appeared to be trade war doves with plenty of experience as deal-makers, so they were not walking into talks as so-called country bumpkins. Yes, they wanted to sign a win-win trade deal with China, but not at the risk of harming the US manufacturing sector and other American business interests. Wilbur Ross, in media interviews, appeared to have a brilliant mind and calm exterior. He took time to explain complicated matters on trade talks in an easy-to-understand way. He also reminded Chinese trade officials that Trump's tariffs were the means to persuade Beijing to go back to the negotiations room table. This indicated that the White House was willing to back away from tariffs if China agreed to terms such as banning forced tech-transfers, opening up more access to US firms in China, and restoring the trade balance, which included finding methods to reduce US trade deficits with China in US–China trade talks in January. Media reports said that Beijing had proposed a bold plan to have balanced trade figures between the US and China by 2024, along with proposal to purchase over \$1.2 trillion in US imports during that time-frame.

Another successful trade strategy utilized by Trump was renegotiating NAFTA (North American Free Trade Agreement) and re-branding it as the USMCA (US–Mexico–Canada Agreement). The US also placed a new restriction that if Mexico or Canada wished to sign a trade agreement with a developing country, including China which was recognized as one, they had to first receive permission from the other two signatory countries. For example, if Canada or Mexico had convinced China to sign a trade deal, Trump trade officials could nix the agreement. If Ottawa or Mexico City ignored Washington's wishes, Trump held the authority to make USMCA null and void. That would place Mexico and Canada in a scenario that they must choose sides between China and the US. However, since the US was still the world's largest economy and nearly double the size of the Chinese economy in total GDP, Canada and Mexico would certainly side with Washington even if they viewed the Trump White House with much scorn. Entering into 2019, the US had been prepared to make similar trade deals with the EU and Japan, which would have isolated China even more.

Trump's trade maneuver was genius. Beijing started to realize that if indeed Brussels and Tokyo signed trade agreements with Washington, Chinese companies could not win. Beijing had to avoid this precarious position by re-entering trade talks with the US and asking for Washington's support to keep China's trade relations with other North American countries, EU member states and Japan on a firm footing. Trump had the power to demand that other countries push back against China, which frightened Beijing into submission.

Besides, China had more to lose than the US over trade wars, and it was incumbent on Chinese trade officials to come to terms with that precarious position. They could complain all they wanted, but if such a scenario were to occur and the US banned all Chinese imports and China did the same to US imports, who would have lost more? China would be the greatest loser since they had long enjoyed massive China-US trade surpluses. Trump, not Xi, was holding the upper hand and the White House trade team knew it. Yet, Beijing had also made some smart moves during bilateral trade talks.

Xi's Smart Tactics and Reasonable Requests

Beijing did not blindly walk into China-US trade talks since they had long anticipated that Washington would eventually make stringent demands on China's trade policies. When reviewing Beijing's economic policies over the past few decades, the leadership had hinted that Chinese citizens would have to adapt to radical structural changes of the domestic economy and to stand prepared to deal with some headwinds if other nations challenged them on future trade deals. Accordingly, about 10 years ago, the Chinese government touted policies, known as the "new normal," advising Chinese citizens to expect slower annual GDP growth rates for the national economy and that its dominance in the fields of manufacturing and exports might soon be eclipsed by other nations. Accordingly, it was imperative for the rejuvenation of the Chinese nation to shift towards a services-oriented and consumption-driven economy.

Additionally, the Chinese economy was becoming a victim of its own success because its labor, land leasing and manufacturing costs

were soaring. Many Chinese factories that were producing cheap goods for export abroad had already been transferred to other countries in southeast, central and southern Asia, as well as further afield to Africa and the Middle East. Therefore, Trump announcing higher tariffs on Chinese imports did nothing more than accelerate deadlines for China's high-polluting factories to move out of the country.

Additionally, Trump's tougher trade actions against Beijing had allowed President Xi to save face during the difficult transition when more and more factories were shutting down nationwide, and tens of millions of migrant workers were expected to get laid off, forcing them to return to their rural hometowns to start their lives all over again. Had Trump not declared trade wars on China, it was very likely that hundreds of millions of disgruntled families struggling under unexpected economic hardships would have been pointing their fingers at Xi and the central government, blaming them for their unfortunate circumstances. But instead, Xi had had an easy scapegoat with Trump, and when the US President made foolish comments about China on Twitter, that simply instilled deeper hatred in the hearts and minds of the Chinese. For nearly all of 2018, Trump was a uniting force and many Chinese had despised him with vigorous passion, thinking he was attempting to destroy their long-cherished economic prosperity.

Therefore, Xi had added incentive to play along and stand tough, arguing that he was staunchly defending China's national interests by refusing to accept any compromise, and ignoring Trump's small gestures of peace and conciliation. Since John Bolton was issuing public comments attacking Beijing's territorial claims in the South China Sea and begging for Taiwan to declare its independence, that just added more fuel to the fire. Xi could convey an image of strength and patriotism by announcing that the Chinese government would never surrender its jurisdiction over certain areas of the South China Sea. They could also declare that if Washington deployed US troops to the island of Taiwan, Beijing would not hesitate to respond with fire and fury like the world has never seen before. The neoconservative war machine had accomplished nothing more that inspire closer ties between Russia and China as well.

Yes, the Chinese economy was starting to sputter in the latter half of 2018. The Chinese state-owned media served as the mouthpiece for the government and disclosing bad news about the country was not encouraged. To understand how seriously the domestic economy was crumbling, *Xinhua* gave a hint by disclosing that the PBOC said the nation's money supply had increased by only 1.1% in October. Yet, the slowdown in economic growth rates had another benefit — starting in the same month, Beijing announced significant tax cuts which resulted in higher take-home pay for Chinese households.

Most Chinese workers are paid monthly and taxes are immediately deducted from their paychecks, so they would see their take-home pay increase by 5% to 10% on average. By submitting proper documentation for their child's education, payments for healthcare, and rental payments, they could get even larger tax refunds. The Chinese who stayed employed during the recent downturn would earn higher take-home pay with tax cuts going into full effect starting on January 1, 2019.

Now let us address the concerns about China's huge trade surpluses with the US. That was unsustainable and China needed to restore balance or Americans would have retaliated with even tougher actions in the future if the problems were not resolved. US manufacturing was hitting a downward cycle since its peak in 1997 and it had seemed the vicious cycle would only continue. But not everyone was meant to or wished to become a white-collar worker. Blue-collar jobs held strong appeal for many people because laborers could remain physically active by working with their hands and they did not have to sit at a desk for long stretches of time.

The working poor were people who did not want to receive hand-outs from the government, but they were not interested in attending a university to get a diploma in a major that did not inspire them. After high school, they preferred to get into a vocational program to learn a trade skill that led to a good-paying job upon completion. Meanwhile, Chinese families were more education-oriented and many Chinese viewed blue-collar work as best to be avoided. If China had succeeded in becoming a more services-oriented economy, it would have resulted in more jobs in the white-collar fields.

The Chinese were entering a stage known as the middle-income trap, but that was not a dead end for them, since large parts of China's western regions had remained largely rural and isolated. If worse comes to the worse, more manufacturing could spread out to the western regions and the Chinese who wished to remain as blue-collar workers could move to that part of the nation to find jobs there.

Beijing had played it smart by pledging to increase procurement of US imports to China with a bold six-year plan to eliminate bilateral trade imbalances. A major reason the US had emerged as a global superpower was on account of American consumers continuing to buy so many imported products, but US households were accumulating overwhelming consumer debts in the process. Many foreign nations, especially China, were getting rich on the shopaholic spending habits of many American consumers. Hence, other sovereign governments had been reluctant to challenge Washington on diplomatic and world affairs due to these US consumption patterns. They feared that alienating the Washington Beltway could result in the US and EU imposing harsh economic sanctions against them.

They needed to look no further than the US treatment of the Russian Federation, Iran and Venezuela to understand that to oppose the US could cause catastrophic consequences to non-aligned sovereign states. Beijing could emerge later on as a world leading superpower on the backs of Chinese consumption power. If other nations wanted to oppose Beijing's dominance on the world stage, the threat of sanctions could be sufficient reason to force them to reconsider such plans. In other words, China as the world's top importer of consumer goods could allow greater influence for Beijing on the diplomatic front.

Beijing had also realized that for its country to embark on the path of sustainable development and increasing social welfare benefits for all Chinese citizens, they could not do it alone and that would require deeper cooperation from US companies and experts with more expertise, know-how, and equipment to help China to achieve its primary goals and objectives. In order to succeed, China had to open up the nation's financial services and healthcare sectors. Yet China could only

attract more FDI from US investors by pledging free and fair markets to ensure opportunities for higher profit margins for them.

An investor is not looking to donate to a charity; they expect not only a return on investment but profits to stay in operation. If Trump and Xi sign a trade agreement, US companies could be pleasantly surprised to learn that they are no longer required to sign joint ventures with Chinese partners, or comply with forced tech-transfer requirements. They could also receive fair market values for offering merchandising rights to Chinese firms, and enjoy strong IPR protections. Such actions would also benefit Beijing as China could become a more trusted member of the international business community and sovereign nations might stop being suspicious of China's membership in the WTO and other global governance mechanisms. It has been a long-held assumption by many countries that China has been a flagrant cheater in the WTO. Despite this, many US multinationals still prefer to build their factories in China for the time being in order to enjoy lower costs and higher profits.

The Trump White House should have seriously considered signing up for China's BRI. The US economy did not stand at much risk of losing out on its worldwide influence by agreeing to become a participatory member of the BRI. If Washington had joined, its allies in Europe and around the world could be expected to follow suit and enroll in the BRI as well. Many critics had spread Red China conspiracy theories to persuade governments to refuse an invitation to the BRI and had claimed that countries were sacrificing their national sovereignty when signing up, but that was just biased and seemingly inaccurate reporting.

Besides, signatory parties of the BRI were not required to accept Chinese-sponsored loans or deals on infrastructure projects if they joined. There was really no harm, no foul if Washington did sign up for the BRI. By doing so, they could have improved diplomatic and economic ties between Washington and Beijing.

China should have continued to insist that politics be kept completely separate when they were fully engaged in trade talks. What did the South China Sea have to do with forced tech-transfers? There

should have been no connection between the two topics. The Chinese government could have taken advantage of the opportunity to reduce the influence of Bolton and neoconservatives by strengthening trade relations with the US. President Trump was a businessman at heart, who appeared to be more interested in the art of the deal than with power scheming.

Beijing did have plenty of bargaining chips to play with as bilateral trade talks were still progressing. China also had much to lose if Trump had indeed made good on all his threats to impose higher tariffs on Chinese imports. Beijing was able to avoid that when Xi made a surprise phone call to Trump in November 2018 and the two leaders accepted a 90-day trade truce. Ever since that remarkable phone call, both Chinese and US trade officials have made tremendous progress. The world has witnessed firsthand that despite the vast and wide differences between Washington and Beijing, the two nations are able to overlook prior animosities to march ahead on supporting an amazing US–China trade deal.

Preparing for a Big Win-Win

In January 2019, media reports widely spread the news that Beijing stood prepared to offer the White House over \$1.2 trillion in incentives to entice US President Trump to sign a US–China trade agreement. What a difference a year had made, since at around January 21, 2018, Chinese trade officials were waving off concerns about Trump’s threats over raising tariffs on Chinese imports. A number of Chinese officials had wrongly concluded that Trump was soon going to be impeached or he would be too distracted by media scandals to focus his energies on the upcoming trade wars. Perhaps the Chinese government had grown accustomed to experiencing rapid development in the past four decades and enjoying higher annual GDP growth rates that had lasted for so long. Hence it was understandable that the Chinese were becoming overly confident, maybe even arrogant, but that was human nature.

When people have experienced amazing periods of success and have accomplished great deeds, they are likely to believe that they are inde-

structible, and can overcome any challenges that might beset them. Chinese officials are not superhuman and were susceptible to the same emotions as ordinary people, and there are moments when they feel happy and sad, angry and conciliatory, excited and tired, hopeful and fearful, calm and anxious, as well as humble and boastful. People are not robots and we should never expect them to act in such a manner.

Having emotions is just a fact of life and when you ignore the passions that people can be expected to have, you fail to understand or empathize with others. The Chinese government had taken tremendous pride in recruiting officials to the CPC who were enlightened, well-educated and hardworking, especially in regard to fulfilling their expected duties. But Beijing had relied too much on logic rather than on the psychology of individuals and society. When these officials failed to gain a closer understanding of psychology, family backgrounds, social mores, emotional triggers, religion, ethics and all sorts of other factors that influence a person's behavior, they may have concluded that Trump was a crazy man since he was so unpredictable, prone to bragging, exuding an over-abundance of confidence even when chaos was surrounding him, and acting in all sorts of strange ways.

Before Trump entered the White House, many Americans were not accustomed to witnessing a President at the White House demonstrating a proclivity for speaking without needing speechwriters, teleprompters, or communications aides to advise him what to say in public. Was it normal for a leader of the most powerful nation in the world to wake up at 5 am every morning and go trolling on Twitter?

It seemed that Chinese trade officials had overestimated their ability to confront the Trump administration, and some may have concluded that if Trump was under too much pressure he would have backed down. But they were wrong. As the US–China trade wars heated up and inflicted much more harm on the Chinese economy, the tables turned and media reports began hinting that Chinese officials were starting to get nervous. Although books had been written with bogus claims that chaos was commonplace at the White House, US trade officials were working with a strong and united front to confront Chinese officials. Consequently, Trump, not Xi, was winning here, but

that should not reflect poorly on President Xi and his character. President Trump had faced off against many powerful rivals in the business world, but he had still managed to emerge as a billionaire property developer.

When Beijing underestimated Trump on the very first day of trade talks, they had already lost the game. It would only be a matter of time before President Xi, who had vowed to fight Trump on the world stage but later called for truce talks, showed a more conciliatory attitude toward Trump when headed to renegotiation of future trade deals. This was the case with others before him such as North Korean leader Kim Jong-un, Mexican President Andres Manuel Lopez Obrador, Canadian Prime Minister Justin Trudeau, and European Commission President Jean Claude Juncker. Fortunately, President Trump was a gracious winner and had allowed his former rivals to save face when addressing surrender terms.

Trump did the same for Xi when the Chinese President called him at the White House in November 2018. He did not taunt him with “I told you so” remarks or said, “I win, you lose.” The two leaders had spoken as friends and Xi was hoping to at least to meet halfway, which was reasonable considering the humbling circumstances that he had just succumbed to. His nation’s economy was beginning to slow down and, by the end of the year, figures showed that China’s economy had risen just 6.6% in 2018, the slowest annual growth rate for the country in the past 28 years. And when Premier Li delivered the Chinese government Work Report at the Two Sessions in March 2019, he forecast the GDP growth rate for China to slow down and hit a range of 6% to 6.5% for the year. Accordingly, Xi, with hat in hand, had to ask Trump for a truce in the hopes that both countries could agree to fair terms on a trade agreement.

Yet US trade officials had also misjudged China on their part. When Navarro published his report criticizing the “Made in China 2025 Plan”, he had viewed it from the narrow lens of a neoconservative ideology basing his conclusions about Beijing on a framework that China was planning to dominate the world as a geopolitical superpower with its powerful PLA war machine in order to expand its hegemony over all other sovereign nations. Navarro, Bolton and their allies had declared

that Beijing was bent on war aims, claiming the country stood prepared to start shooting wars over the island of Taiwan, to expand its territorial grip over the South China Sea, and to expel the US presence from the Asia-Pacific region.

Such notions sounded insane when considering that, had China wished to act in such a provocative and bellicose manner, hot wars would have already erupted. Beijing's motives were viewed with grave suspicions by the White House and the paranoia had started to spread further when more US media reports published stories claiming that China's largest smartphones maker and world's leading telecommunications giant — Huawei Corp — was allegedly engaged in espionage activities. This caused many people to believe that every Huawei device sold to the public came equipped with Chinese government backdoor spyware equipment, allowing Beijing to closely monitor the activities of each and every smartphone user from all over the world. But such stories defy logic just on cost alone. Huawei has sold tens of millions of mobile devices each year, and how could Beijing afford to hire so many people to monitor hundreds of millions of people every second of the day? That would be impossible, whether you believe it or not.

However, Chinese government officials and the state-owned media did deserve some blame for making frequent usage of CPC propaganda terms. By reading *Xi Jinping: The Governance of China, Volumes I and II*, which is a compilation of Xi's speeches from 2012 to 2017, many sentences had references to CPC jargon and phrases, such as "socialism with Chinese characteristics," "according to the 18th National People's Congress ..." and "let Marxism be your guide." It was understandable to use such phraseology to describe the objectives of the Chinese government, but for Americans, when they heard comments such as "plenary sessions," "five-year plans" and "Central Committee", they were likely to conclude that the spirit of Chairman Mao and his Marxist agenda were still alive and well under the current leadership of President Xi. When "Xi Jinping thought"³ was incorporated in the

³CATO Institute, "Why Xi Jinping thought is a threat to China's future", <https://www.cato.org/publications/commentary/why-xi-jinping-thought-threat-chinas-future> (August 14, 2018).

Chinese Constitution, neoconservatives in the Washington Beltway could make a valid argument that Xi was setting the stage to become the nation's dictator for life.

Nevertheless, many Americans, upon hearing the news of Xi's glamorous titles, might have little awareness about Chinese cultural norms. Whether Beijing had claimed it was true or not, China had remained largely a patriarchal society, recognizing a person's power with titles and symbols of patronage. The Chinese respect power but only when the person has demonstrated it with external symbols of authority. A regular Chinese person as a stranger cannot approach a more influential person and say "follow me," because in the mind of the Chinese that would be crazy talk.

A person demanding obedience had to be in a position of power, such as a boss at the office, or government official in a bureaucracy, or a parent to a child. Therefore, getting promotions in government or at the workplace is very important for many Chinese. With a new title would come more power and privileges. By conveying the image of power and with others formally recognizing their power, they can then impose their leadership on others. Accordingly, Xi was not a man who sought power for power's sake so he could gain selfish benefits; if that were the case he never would have launched a nationwide crackdown on corruption since that had created too many enemies for him. For Xi, demonstrating his power with "Xi Jinping Thought" was just a means to an end.

Many other leaders who were very successful also happen to think in a similar manner. They were not concerned with the image of power for vanity's sake; they just wanted to get projects completed. Nike's "Just do it" was a popular marketing phrase for Americans in the 1990s because that connoted a person who did his job without hesitation. Hence, Xi wanted to show to the Chinese and the world that he was a leader who would just do it.

The US media and Washington officials often ignored the human side of Xi and focused their attention on his frequent mentioning of CPC propaganda phrases. They criticized his apparent power grabs without realizing that Xi just needed to show his power with fancy titles

before he could act on it, since Chinese culture had compelled him to act this way. Nonetheless, what is done is done and despite the major misunderstandings that had occurred on both sides, the two great nations have found ways to come to closer on terms in efforts to reach an amazing bilateral trade agreement.

In doing so, that would forever change the world as we know it. The EU and the UK should have played it smart by agreeing to trade deals with either Beijing or Washington or even both before the US and China had accepted a trade truce. By waiting too long under the assumption that neither Beijing nor Washington would support each other, Brussels has been left out in the cold and it is too late for them to jump back into the game. The same can be said for Tokyo. Accordingly, the new trade agreement will set the stage for the continued rise of China, while the two big power players in world affairs will be the US and China while all other sovereign nations will play minor and supporting roles. The EU will lose out as a powerhouse regional bloc.

But we should not rule out Russia and India as power players in the years ahead. The US and China will come closer together on economic cooperation but they will not emerge as allies from a military standpoint. Therefore, Moscow will stay friendly with Beijing, and Delhi could be the wild card, at times siding with Moscow and at other moments showing support for Washington in efforts to win more gains and to leverage on their power for the long term. India's Prime Minister Narendra Modi is a strong leader in his country, just as President Vladimir Putin has been a popular leader in Russia. Consequently, we may see the decline of the EU and Japan, but the rising emergence of India and Russia.

The Chinese economy will prevail, but with more and more American firms having the potential to succeed in doing business there. There is a strong likelihood that, by 2024, US trade deficits with China will vanish, while American exporters will deliver hundreds of billions of US dollars in total annual value of goods and products to the China market. American farmers could ship huge loads of crops and livestock to Chinese consumers, America's manufacturing could regain its momentum all over again, and US-based technology companies could

expand into China. They would be permitted to keep their proprietary information sacred and secret while their IPR can be better strictly enforced in the country. With the recent implementation of China's new foreign investment law, US firms are protected already.

Even though China has long earned notoriety as a copycat nation for ignoring US patent rights and overlooking the actions of counterfeiters hawking their items on sidewalks, that is going to change. We could witness the arrival of a new China on the horizon that would soon look a lot like America, but without US-style democracy. And that should be acceptable, since Washington should not impose its democratic values on all nations. President Trump was not a neoconservative and did not always support their values. Therefore, China could stand tall with the US. The signing of the US–China trade agreement will usher in a new era of prosperity for both nations. As we look further down the horizon, Africa may also rise in prominence as both Washington and Beijing compete for influence on the sub-Saharan continent as well. Best of all, after reaching a bilateral trade agreement, Trump and Xi could become friends again, with a friendship that could last for many years to come.

President Xi loves to quote from Chinese poetry and folk tales in his speeches. Let me conclude this book by citing one of his favorite poems, composed by Wang Zhihuan, a famous Tang Dynasty poet. The words seem fitting when pondering the struggles that Trump and Xi have both encountered as they challenged each other during bilateral trade talks in 2018 and as they come closer to reaching a consensus in 2019.

On the Stork Tower

By Wang Zhihuan

The sun beyond the mountains glows;

The Yellow River seawards flows.

You can enjoy a grander sight,

By climbing to a greater height.⁴

⁴ChineseTime, “On the Stork Tower”, <http://www.chinesetimeschool.com/en-us/articles/chinese-poem-on-the-stork-tower/> (September 15, 2014).

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Epilogue

As of March 1, 2019, the prospects of US President Donald J. Trump and Chinese President Xi Jinping signing a US–China trade agreement appeared optimistic. Even as more rounds of talks between US and Chinese trade officials continued with a whirlwind of trips between Beijing and Washington for much of April, Trump and the media expressed no forebodings that ill winds were blowing behind the scenes.

Marching on through April, there seemed no hint of insurmountable challenges lying ahead that would potentially block trade talks. Trump continued to issue public statements claiming he was happy with the progress and that the two sides were getting closer to signing a so-called amazing trade deal. Therefore, the Chinese celebrated the May Day holiday with a special four-day respite and few people in the country suspected that something was amiss.

Yet the spirit of cooperation between Beijing and Washington suddenly took a turn for the worse on Sunday morning, May 5, when Trump announced on Twitter that he would increase tariffs from 10% to 25% on \$200 billion of Chinese imports, starting on May 10. Trump tweeted:

For 10 months, China has been paying Tariffs to the USA of 25% on 50 Billion Dollars of High Tech, and 10% on 200 Billion Dollars of other goods.

These payments are partially responsible for our great economic results. The 10% will go up to 25% on Friday. 325 Billions Dollars....¹

Beijing time is 12 hours ahead of Washington time, so when Trump sent the tweet on Sunday morning, many Chinese families were going to bed, blissfully unaware of Trump's Twitter posting, especially since Twitter is banned in China. Only media reports could deliver the news to them, which would only appear hours later. Many Chinese and expatriates living and working in Beijing had a rude awakening on their first day back to work.

Many Chinese rely on their smartphones to catch up on the latest news which broke overnight. So when they woke up that morning to check out the latest updates on world events, they discovered what Trump had earlier posted on Twitter, which sent shockwaves throughout the country.

Apparently, Chinese officials had sent revisions through a diplomatic wire to the US Trade Representative on the Friday before. The document was 150 pages long, and the Chinese had made corrections to nearly all paragraphs, while requesting deletions of numerous provisions and clauses, cutting the agreement to a third of its original length.

According to media reports, Lightizer looked at the document with its revisions and concluded it was unacceptable, so he advised President Trump of his concerns. The White House believed Beijing was trying to sneak in last-minute changes on the grounds that Trump was more eager to sign a trade deal than Xi was.

Chinese trade officials learned the hard way that not only was their assumption incorrect, but Trump's response was to collapse the truce in which both sides had agreed not to raise tariffs on each other. All goodwill gestures had been cast aside in just one tweet. As of the last week of May, it seemed like only a miracle would bring the two sides

¹ Donald J. Trump, Twitter, https://twitter.com/realDonaldTrump/status/1125069835044573186?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweetembed%7Cterm%5E1125069835044573186%7Ctwgr%5E393039363b636f6e74726f6c&ref_url=https%3A%2F%2Fwww.usatoday.com%2Fstory%2Fnews%2Fpolitics%2F2019%2F05%2F05%2Ftrump-proposes-massive-increase-chinese-tariffs-tweet%2F1111952001%2F, (May 5, 2019).

to resume talks after May 10, since neither Beijing or Washington were willing to bend on any concessions.

Trump had accused Xi of backing out on a deal, while also claiming Beijing was hoping that former Vice President Joe Biden, who announced his campaign to seek the Democratic Party nomination for President, would get elected to the White House the following year, anticipating that he would cancel tariffs on China and set trade ties back to what they had been when Obama was US President.

The accusation sounded wild, but a Democratic Party operative, Susan E. Thornton, a former US State Department official, was observed giving public lectures in Shanghai and granting interviews in Hong Kong, urging Chinese trade officials to pause trade talks with the Trump administration and wait for a Democrat to return to the White House. Conservative Treehouse quoted Thornton in a speech at the Shanghai Chamber of Commerce:

I tell all our foreign counterparts they should keep steady, keep their heads down and wait. [They should] try to not let anything change dramatically.

If this skeptical attitude towards talking diplomacy continues in this administration, you might have to wait till another administration.²

The news seemed all the more stunning since a few weeks before her public lecture, Biden was on the campaign trail boasting that foreign leaders had called to beg him to run for the White House. Biden said, “I get calls from people all over the world.” He added, “World leaders are calling me, and they’re almost begging me to do this, to save the country, save the world.”³

The White House appeared to have expressed concerns that President Xi was one of the foreign leaders who had called him, and

² Conservative Treehouse, “*Deep state — Former Trump Senior State Dept. Official tells Beijing to wait until Trump is removed...*” <https://theconservativetreehouse.com/2019/05/16/deep-state-former-trump-senior-state-dept-official-tells-beijing-to-wait-until-trump-is-removed/> (May 16, 2019).

³ The Sun, “*Biden his time: ‘Sleepy’ Joe Biden boasts world leaders begged him to run for US President to ‘save the world from Trump’*,” <https://www.thesun.co.uk/news/8946857/joe-biden-white-house-race-world-leaders-begged-him-to-run/> (April 26, 2019).

Trump disclosed those suspicions when posting on Twitter to explain why he would increase tariffs on Chinese imports to 25%. He argued that China was not only backtracking but had failed to narrow trade imbalances during the truce, and that Beijing was just waiting for Biden to go to the White House.

Chinese trade and government officials insisted they had never called Biden, arguing that this was a serious breach of diplomatic protocol. They would not make the phone call to Biden unless he was elected as the US President, not beforehand.

From Trump's perspective, Biden had given a campaign speech saying "China is not a competitor." By making logical deductions, the Trump administration felt they had a right to be suspicious over Beijing's actions since Beijing had submitted too many revisions on the most recent trade document in question.

Therefore, a stalemate ensued throughout most of the month of June while US and Chinese trade officials halted direct talks for the time being. Fears had arisen among many Chinese, as well as international diplomatic and media circles, that trade wars would become much fiercer and have a deeper impact on the global economy.

Yet, it was just a temporary pause, since bilateral trade talks resumed shortly before the 2019 G20 Leaders' Summit which was held in Osaka, Japan on June 28–29.

Another concern that had flared up shortly after the breaking of the trade truce in May was related to allegations of Chinese tech firms engaging in cyber-theft and espionage, since Huawei and its affiliates were listed as targets. Trump had signed an executive order⁴ forbidding US companies from doing business with blacklisted Chinese high-tech companies on the grounds that they were deemed "foreign adversaries." It was commonly understood that Huawei was

⁴ White House, "Executive order on securing the information and communications technology and services supply chain," <https://www.whitehouse.gov/presidential-actions/executive-order-securing-information-communications-technology-services-supply-chain/> (May 15, 2019).

the target, and the next day this was disclosed by the US Trade Representative.

Many Chinese trade officials had expressed shock upon hearing the news, but it could have served as a blessing in disguise. Trump was in a serious political bind. Republican Senator Marco Rubio (Florida) had given his blessing to push forward legislation introduced by freshman Republican Senator Josh Hawley (Missouri) to place a ban on Huawei in the US that would have been effectively permanent even if Trump and Xi had signed a trade agreement later on.

It was expected a week earlier that Trump would approve a trade deal with Beijing, so if the bill banning Huawei was introduced afterwards, the US President would have been trapped into signing it, because Trump's core supporters for his re-election campaign are conservatives, many of whom hold anti-China viewpoints. Hence, he could not veto the legislation since that would harm his chances of getting re-elected. And if the Huawei ban had become law, only Congress, currently led by Democrat House Speaker Nancy Pelosi (California), could vote to scrap it.

Trump would have appeared duplicitous in his dealings with Beijing if he said "yes" to the trade agreement, but later voted on a bill to ban Huawei from US markets. Therefore, Trump signed an executive order to avert economic catastrophe since, if a trade agreement was reached with China, he could cancel the ban with his signature alone. From the perspective of a strategist, the maneuver was brilliant. He would appear tough on Beijing which would appeal to his voter base while protecting Huawei from facing a permanent ban in the US.

Apparently, the global media never understood that strategy even after Trump had pointed out that he would halt the Huawei ban as part of the trade agreement. Instead, reporters mocked the US President for flip-flopping and not sounding sincere as he criticized Huawei over allegations of espionage, but at the same time promising to take a softer tone when negotiating with Beijing on a trade deal. The logic here is easy to comprehend. Yet many reporters held much animosity towards

Trump and lacked any awareness that he could be utilizing a clever tactic for negotiations.

Meanwhile, Trump insisted that if Beijing refused to sign the current deal offered by the White House, he would deliver a far worse deal for China if he was re-elected in 2020. Nonetheless, Beijing said they had canceled talks until the US acted in a more conciliatory manner, while Xi pledged he would refuse to cancel granting government subsidies to SOEs.

Trump and Xi were saving face as leaders of their respective nations. They concluded that the current agreement was not worth fighting for, and it would be better to look as if they were fighting against each other in the hopes they could figure out how to seal a better trade agreement in the months or years ahead. There was no shame in breaking the trade truce since it was only considered a temporary reprieve.

Perhaps they were not feeling anxious to move forward until the economies of both countries had hit a tailspin and they concluded that bilateral cooperation on trade and investments would be the right solution for them. When the pain was felt, the two countries would change tactics and act in a more conciliatory manner.

It seems that was exactly what happened when President Xi called Trump a week before the 2019 G20 Leaders' Summit. US Treasury Secretary Steve Mnuchin had expressed optimism before White House officials embarked on the trip to Osaka. The Treasury Secretary declared that the two sides were making progress in talks and coming close to reaching a deal before the end of the year as both sides had already agreed on about 80% of all issues under negotiation.

The positive tone was nearly destroyed when Trump was about to board Air Force One for the flight to Japan. In reply to questions from reporters, he said he was eager to raise tariffs on China with his "Plan B" strategy.⁵ Nevertheless, Trump was just bluffing as he returned to a trade truce after meeting President Xi face-to-face on the sidelines at the G20. Trump was even praising Xi, saying the meeting had gone

⁵Global Time, "*China slams US 'Plan B' ahead of bilateral summit,*" <http://www.globaltimes.cn/content/1155977.shtml> (June 27, 2019).

much better than he had anticipated and declared the Chinese President a “brilliant man.”⁶

But did Trump do a flip-flop? No, Trump never intended to wage full-fledged trade wars against China. He only wanted to put pressure on Beijing, forcing them to alter their current trade policies which he believed were very unfair. By pushing hard against Xi, he was seeking more concessions from China. And when Beijing offered compromise, the White House sought to return the favor by giving concessions to China as well.

In other words, Trump was pushing back when he thought the other side was fighting too hard, but if China offered concessions and demonstrated gestures of goodwill, Trump delivered friendship and amity in response. The trade wars instigated by Trump were not a personal attack against China. The US President was looking to bring more fairness in bilateral trade relations with Beijing and all other sovereign governments around the world.

Despite the negative impact from the US–China trade wars, the world has entered a new era in which globalism has begun to fade into irrelevance after populist parties representing Eurosceptics and the Greens won more seats to the EU Parliament in the May 2019 elections. A new wave was surging ahead so China lost out on a golden opportunity to score a major trade deal with Brussels. Meanwhile, Trump met with Japanese Prime Minister Shinzo Abe in Tokyo in the same month, and the two countries reaffirmed their strong alliance in the Asia–Pacific region.

In order for Trump to gain the upper hand in trade talks, Washington had to persuade other nations to side with the US if tensions with China got much worse. Japan indicated they would favor the US, while the EU has scant motivation to work much more closely with Beijing and they are likely to stay neutral over US–China trade wars.

⁶White House, “Remarks by President Trump in press conference, Osaka, Japan,” <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-press-conference-osaka-japan/> (June 29, 2019).

Beijing could still rely on the emerging markets and the countries that stood firmly in support of China's Belt and Road Initiative, but if the Trump White House offers bigger economic incentives for Latin American and African countries, China may well find itself further isolated as an increasing number of sovereign governments would choose to side with Washington.

Additionally, China's economy has become too reliant on its exports and manufacturing and needs to shift in different directions, such as to services and consumption. Yet these efforts will only succeed if Beijing can reduce its subsidies to large SOEs and grant private and foreign companies more fairness in gaining access to the domestic market.

While attending the 2019 G20 Leaders' Summit, President Xi delivered a speech reiterating that Beijing had already passed a new foreign investment law earlier in the year, and the nation's regulators were eager to open up the domestic financial markets as well as many other business sectors to foreign companies and investors.

The government had also lowered the number of industries that would face restrictions from foreign investments. The NDRC had reduced the negative list for foreign investments in certain sectors from 48 to 40, while foreign-run companies could operate wholly-owned companies or companies in which they owned a majority share in the country. This new list would go into effect from July 30, 2019.

The message was clear: Beijing was willing to open up its economy to companies from all over the world. Chinese Premier Li Keqiang had also addressed this topic a week after Trump and Xi restarted the trade truce. He delivered a keynote address at the World Economic Forum in Dalian, China.

Right now we need to let state-owned enterprises, privately-owned enterprises and foreign-invested companies, as long as they are registered in China, to be recognized as Chinese companies, all treated equally.⁷

⁷ CNBC, "China's second-in-command: We're building an even playing field for foreign firms," <https://www.cnbc.com/2019/07/02/li-keqiang-china-will-become-an-even-playing-field-for-foreign-firms.html> July 2, 2019.

Li added that Beijing pledged \$300 billion reductions in taxes and fees for the year. Other incentives included cutting back on restrictions to foreign ownership of life insurance and financial services companies, opening up the manufacturing industry to more foreign investment, and easing foreign equity restrictions in the auto sector.

For China to become a more trusted partner in the international business community, it should resolve a number of concerns over issues such as tech-transfers, intellectual property rights, joint ventures, subsidies for SOEs, and foreign-owned enterprises, especially allowing US-based firms to expand and export products and services to China.

Beijing has begun to take greater strides to demonstrate its willingness to open up its economy to more foreign investments, while setting the stage to change its old habits of racking up massive trade surpluses with the US, but China must take more action to prove they are much more serious this time around.

China has to make substantial progress on narrowing trade imbalances with the US or risk a return to trade wars if a bilateral trade agreement does get signed. Beijing still has control over its fate, but they must decide if they can obey the stringent requirements that are required by the agreement. President Xi may feel great reluctance to sign a deal with President Trump, but they can certainly create face-saving gestures to meet halfway and reach a consensus that allows both the Americans and the Chinese to feel like real winners.

The Americans and Chinese can only hope, since no deal has been signed yet, but that is still much better than despair. A famous saying goes, “It’s always darkest before the dawn.” Let us not forget that as we wait in anticipation of a US–China trade deal to be signed by the nation’s two leaders in the future.

Trump and Xi have remained good friends despite their disagreements over trade issues. The world learned this from their face-to-face meeting in Osaka, Japan when the two leaders met behind closed doors and had a heart-to-heart talk to clear the air. Prior to the meeting, Trump had threatened to impose higher tariff rates on a list of consumers’ products imported by China, valued at around \$300 billion.

Trump was even bragging about increasing tariffs, saying the taxes went straight to the US federal government coffers. The White House was not anxious to return to the trade truce, believing the trade wars were benefiting the US manufacturing sector in the long term. Accordingly, Xi had to explain to Trump privately that the US should work more closely with China to support a bilateral trade agreement.

Apparently, Xi enjoyed some success in Osaka as Trump agreed to stop raising tariff rates on Chinese imports in the future, but he did not lower the tariffs that were already in effect. However, Trump explained that if Beijing made good progress on future trade talks, he would reduce tariff rates, even down to zero, if China did the same on US imports to ensure reciprocity.

Trump also permitted US tech firms to continue cooperating with Huawei, in regards to selling software and hardware components to the Chinese smartphone maker. Such actions demonstrate that Trump had returned to the routine of give-and-take expected during trade negotiations.

It may take another year or two before Trump and Xi do eventually sign a trade deal, but both leaders have learned valuable lessons from the G20 Meeting in Osaka — they must continue to have direct communications with each other.

Trump and Xi are strong leaders by nature and they prefer to take charge when circumstances warrant it. It seems they had relied too much on the expertise of their aides, which led to much confusion and many instances of misunderstandings.

A good strategy would be for them to maintain a good dialogue through regular phone calls, so that if either Xi or Trump has concerns, such as if one side or the other did appear to be signaling that they could be backing out of trade talks, they could call to confirm or dismiss those suspicions. A simple phone call could get everything back on track again.

Beijing and Washington also recognized that there would be no more strict time deadlines and that could benefit both sides. The Chinese government did indeed intend to open up its economy further to foreign investments, decrease subsidies and support for many of its SOEs, while

addressing other demands imposed by the US Trade Representative, but Beijing still required more time for implementation.

The structural changes required by China need to be set up in stages rather than have radical reforms introduced in haste. Chinese citizens, companies and society have grown accustomed to their unique political system that has embraced both free market reforms as well as strong support for SOEs.

When the reforms are implemented, that could result in huge numbers of job losses in China, a dramatic rise in bankruptcies of Chinese firms, and a significant slowdown of the national economy in the short- to mid-term since the adjustments would be very disruptive and difficult to confront.

However, these reforms are necessary if the Chinese hope to rise in status as an economic giant and diplomatic superpower. When the nation chooses to welcome more free market policies and open up to more foreign firms conducting business there, China could soar higher than ever before. Not only will China's GDP surpass US GDP by 2030, if not earlier, more Chinese people will reach the ranks of the middle class as they enjoy better living standards and higher incomes.

The truth is that China's economic and political rise remains inevitable whether US–China trade wars continue or the two nations sign a bilateral trade agreement in the near future. If trade wars continue, China will push ahead on more comprehensive efforts to localize its markets, keeping its supply chains, manufacturing and consumption China-focused. If the US and China endorse a bilateral trade agreement, the Chinese economy will continue to benefit from globalization and will attract more substantial sums of FDI.

The best Trump can achieve is to slow down the pace of China's rise with trade wars. But if he signs a trade agreement with Xi, the US could enjoy greater peace and prosperity with China as a more reliable trade partner.

For the time being, Trump is the master of his own fate. If he wants trade wars, he can continue them; but if he wants Xi to sign a deal, he can just make a phone call and come to terms, i.e. the White House should agree to drop tariffs to zero on Chinese imports, as well as stop

blacklisting Huawei and other Chinese high-tech firms in the US markets.

Accordingly, China's rise should not set off alarm bells for the White House, western media and American thought leaders. Should Washington choose to enter a fair trade partnership with Beijing, they can enter a new era in which mutual trust, mutual benefits and win-win cooperation will boost both the economies of the US and China, and the rest of the world as well.

US President Donald J. Trump and Chinese President Xi Jinping have a very important decision to make. The question the two most powerful leaders in the world have to answer is whether they will set aside their differences to meet face-to-face, their pens in hand, to sign a win-win US-China trade deal.

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