China's Strategy to Regain Its Position as a Global Power

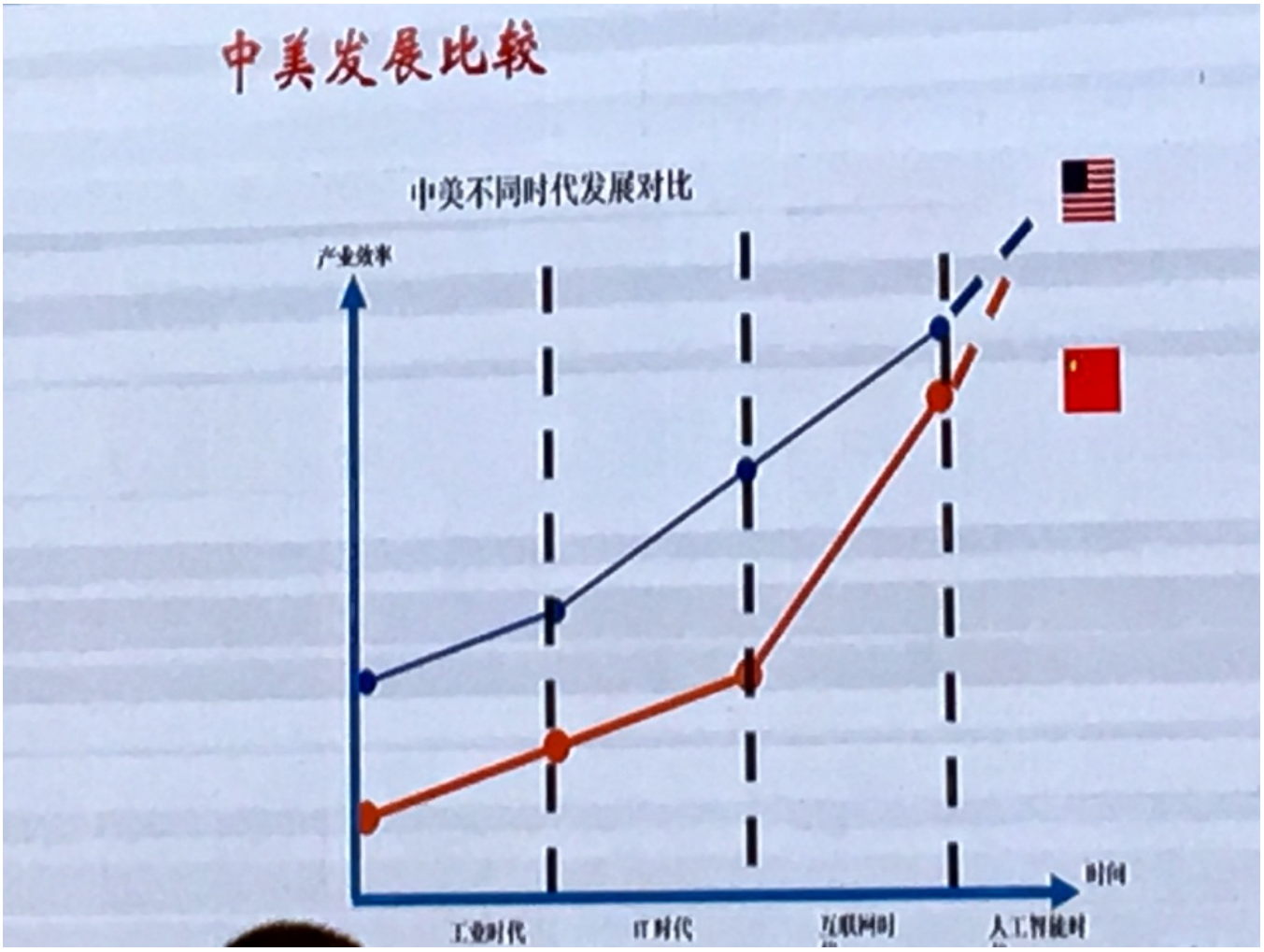
Prof. Peter Fong

February 2021



永遠名譽會長黃友嘉博士（左一）主持了座談環節，與復旦大學中國研究院院長張維為教授（左二），香港科技大學經濟學系雷鼎鳴
文大學香港亞太研究所名譽高級研究員王卓祺博士（左四）一起交流對國家發展以至全球治理的看法。


中華大講堂
— CHINA MASTERS SERIES —
OUR HONG KONG FOUNDATION
國崛起


中美发展比较
中美不同时代发展对比
产业效率
时间
工业时代
IT时代
互联网时
人工智能时

如何解释中国的成功？

一、劳动力便宜？(Cheap labor?)

二、大量外资？(FDI?)

三、市场经济？ (Market economy?)

四、威权主义？(Authoritarianism?)

五、国家资本主义？(State Capitalism?)

中国找到了成功之路：中国模式

1、政治领域：(selection+election)

- 代表人民整体利益的政治力量
- “选拔+选举”超越仅仅依靠“选举”

2、经济领域：(mixed economy)

- “混合经济”超越“华盛顿共识”

（拒绝市场原教旨主义）

3、社会领域：(state-society interactions)

- “社会与国家良性互动”超越“两者高度对抗”

（西方的“分而治之”与中国的“合而治之”）

把中国的事情说清楚

解构西方话语、建构中国话语：

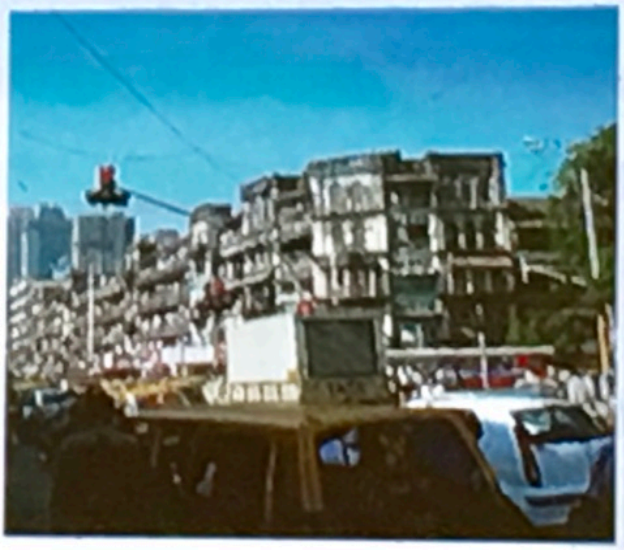
（目标）建构全面、透彻、强势的中国话语

（类型）建构学术、大众、国际的中国话语

中国话语案例1：政治范式之争

- 从“民主还是专制”到“良政还是劣政”？





中国话语案例2：民主制度之争

- 形式民主与实质民主
  （形式民主的基本困境：参选率低、支持率低）
- 议程设置（比较美国国会和中国“两会”）
- 民主决策（“走出去，请进来”）

- 西方民主制度在实践中的三个基因缺陷：
- —人是理性的
- —权利是绝对的
- —程序是万能的

中国话语案例3、政党制度之争

- 中共与西方政党不同：
  “整体利益党” vs. “部分利益党”

- 历史基因：
  “百国之合”与统一的儒家执政集团

- 合法性的来源：
  民心向背（民意 vs.民心）、选贤任能

中国话语案例4：成功标准之争

- 一、解读A：
  - 人均GDP低，但社会发展指数高
  - 中位家庭净资产
  - 人均预期寿命
  - 社会治安
  - 对未来是否乐观
  - 结论：社会主义制度在中国的成功（人类历史上第一次…）
- 二、解读B：
  - 除了制度优势外，GDP的计算方法有问题
- 三、解读C：
  - 指标创新："新社会发展指数"

中国话语案例5：国家性质之争

- 普通国家（民族国家）与文明型国家
- 文明型国家的特征：四"超"

---超大型的人口规模

---超广阔的疆域国土

---超悠久的历史传承

---超丰富的文化底蕴

中国话语案例6：价值顺序之争

社会价值优先顺序的比较（资料来源：D. Hutchcock’s survey, 1994）

东亚	美国
• 1、社会秩序	言论自由
• 2、和谐	个人权利
• 3、政府问责制	个人自由
• 4、接受新思想	公开辩论
• 5、言论自由	生存
• 6、尊重权威	政府问责制

中国和平崛起的世界意义

1. 世界最大经济体、最大消费市场
2. 十年内中产阶层将是美国人口的两倍
3. 基本实现了全民医保和养老
4. 世界最高的住房自有率之一
5. 可再生能源世界领先
6. 新工业革命的领跑者
7. 中国模式将鼓励越来越多的国家走自己的路
8. 软硬实力变化使世界秩序从纵向结构转向横向结构



The Rise of China

China's GDP

-Grow 34 times in 40 years (1978-2018)

-Rank 2 in 2019, from rank 11 in 2001.

China focus on:

-Peaceful development, won't seek hegemony, seek co-development to win, create human common destination.

-Use soft power: move with humanity, charm with principles, convince with virtue.

US & the West thinks differently:

-Over-power with authority, buy people with money.

-Weak in human rights, lack freedom & rule of law.

The Global Economy by GDP

Source: World Economic Forum

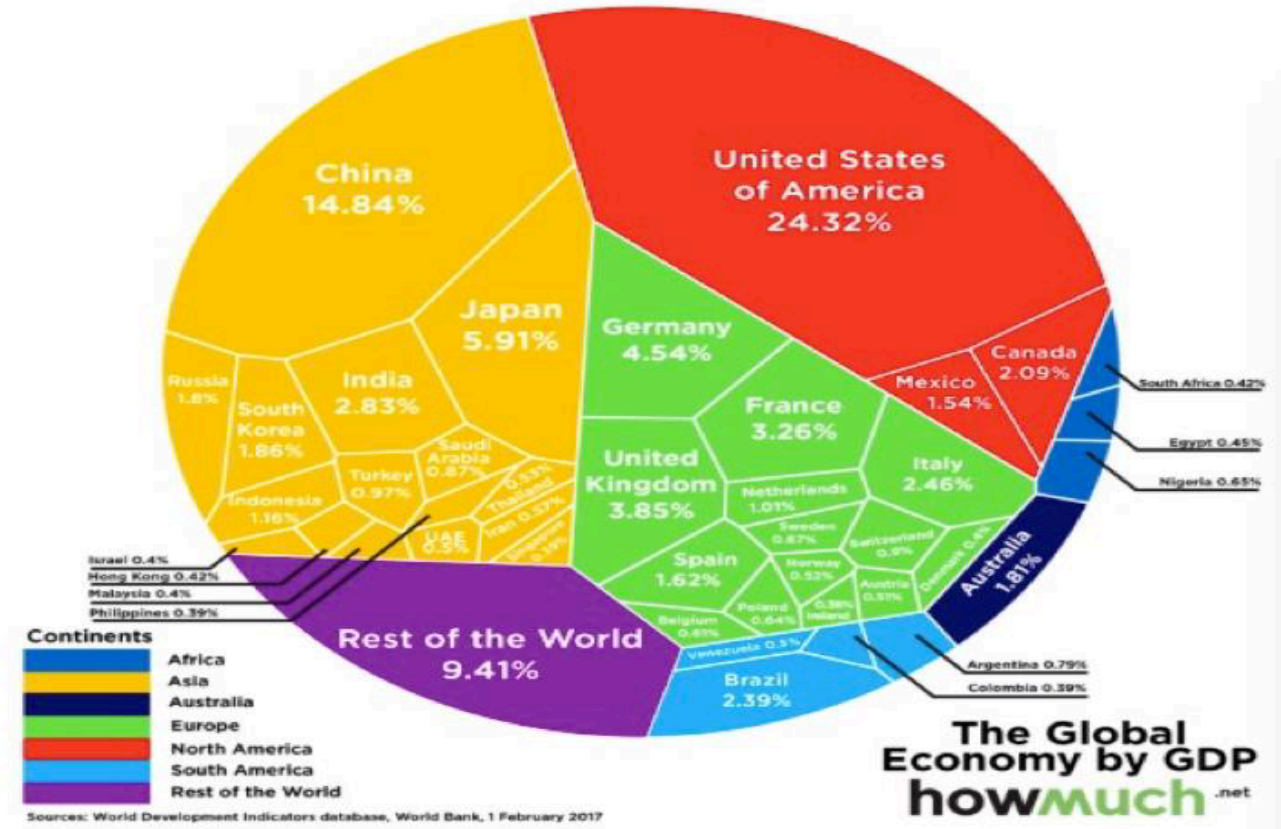
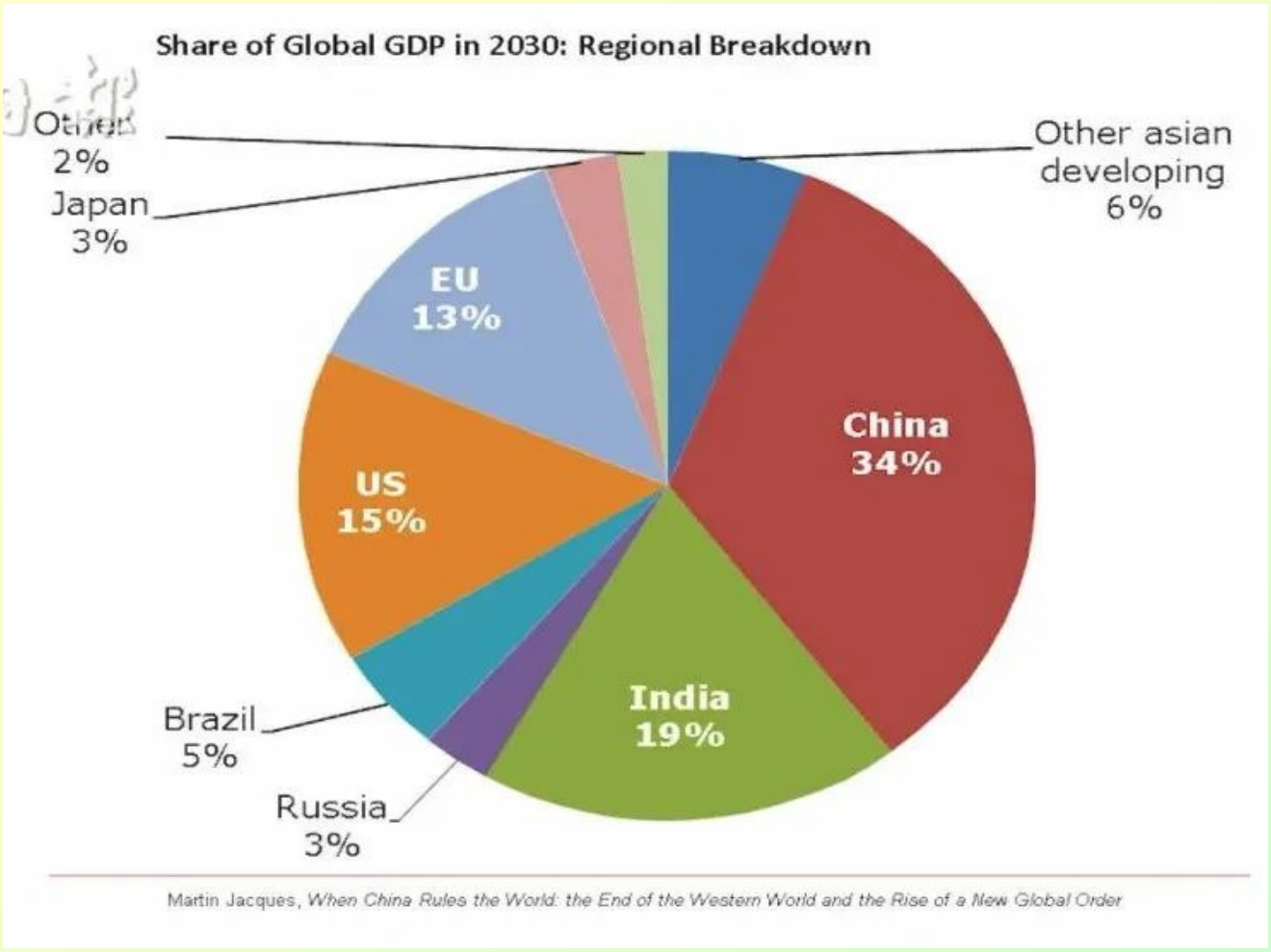
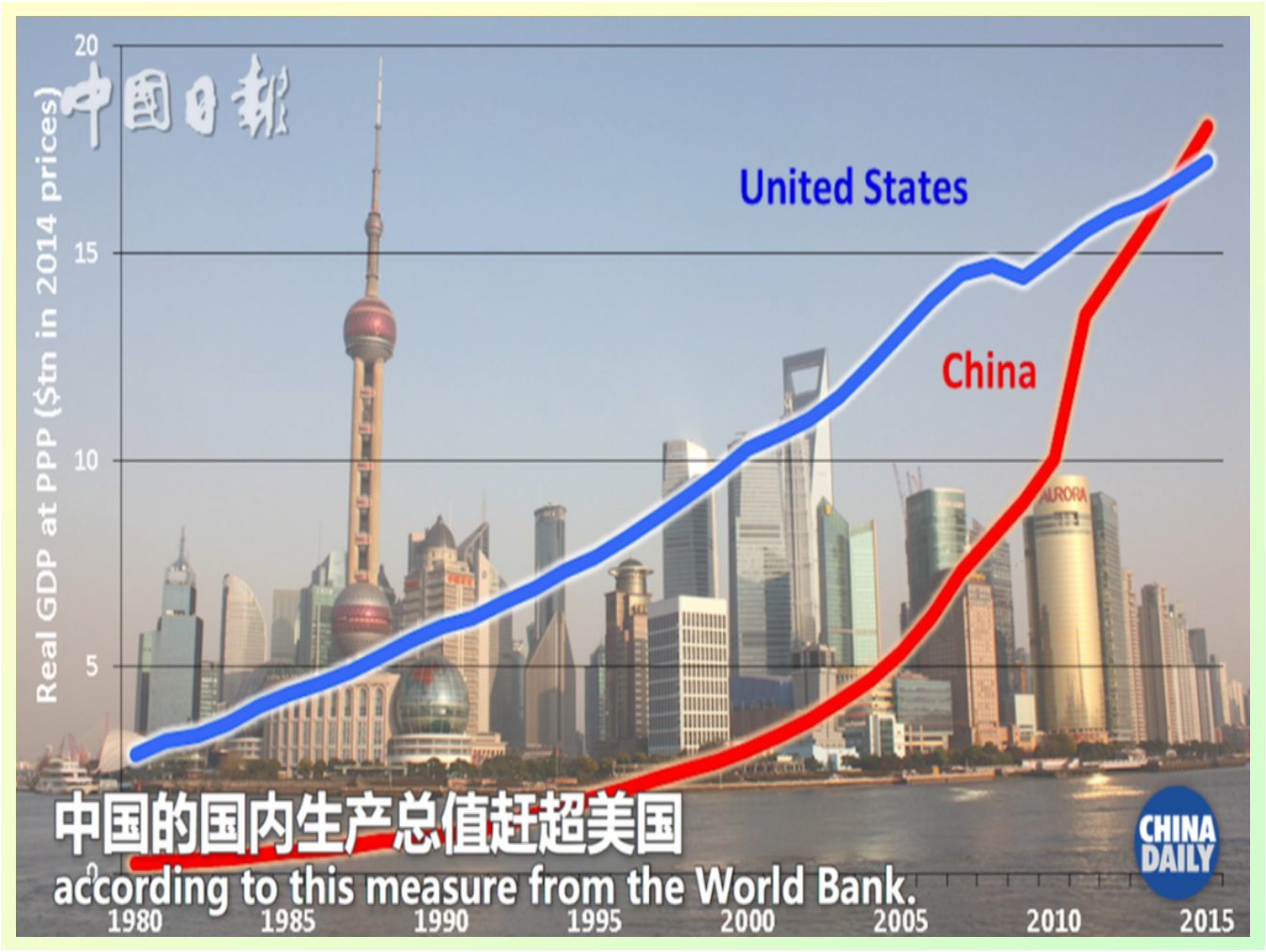
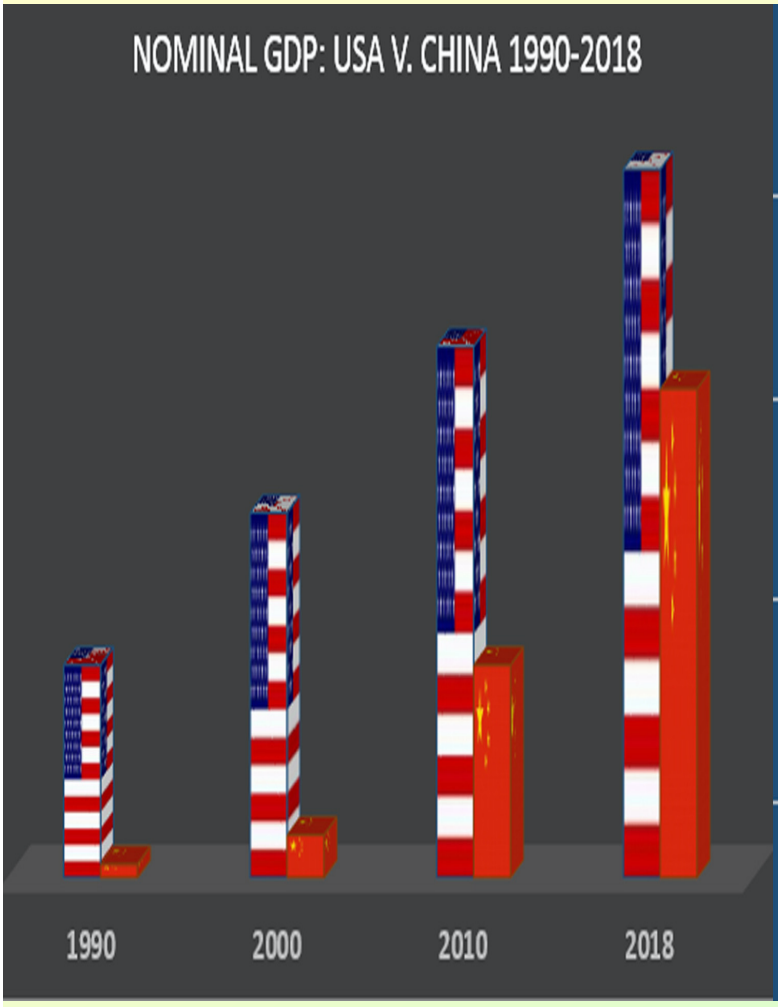


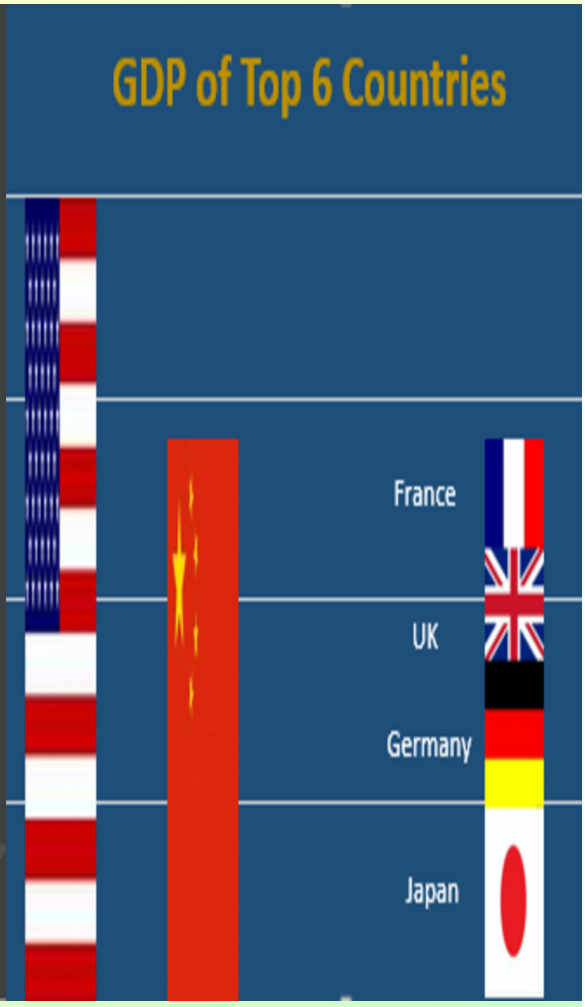
Image: World Bank

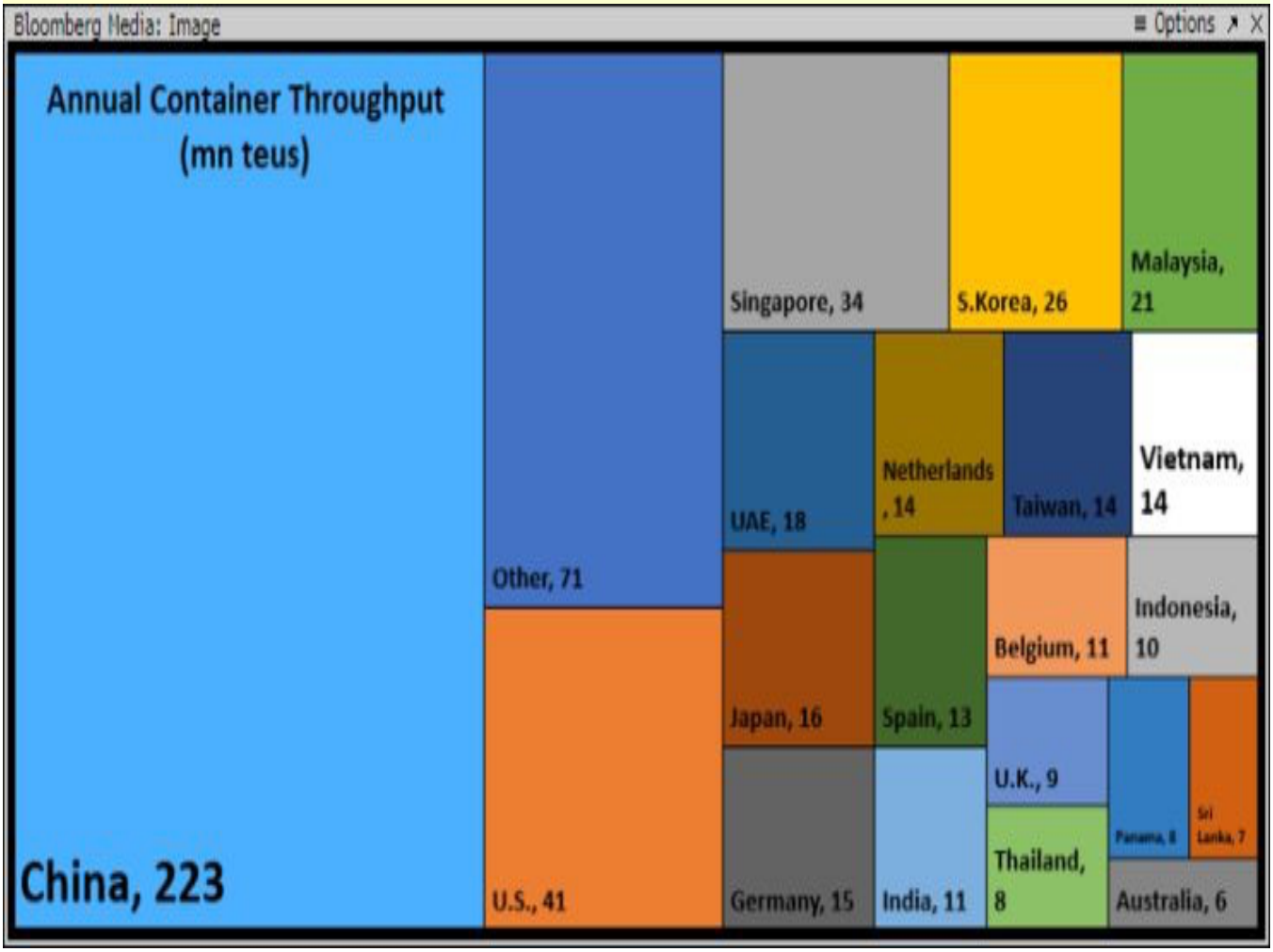


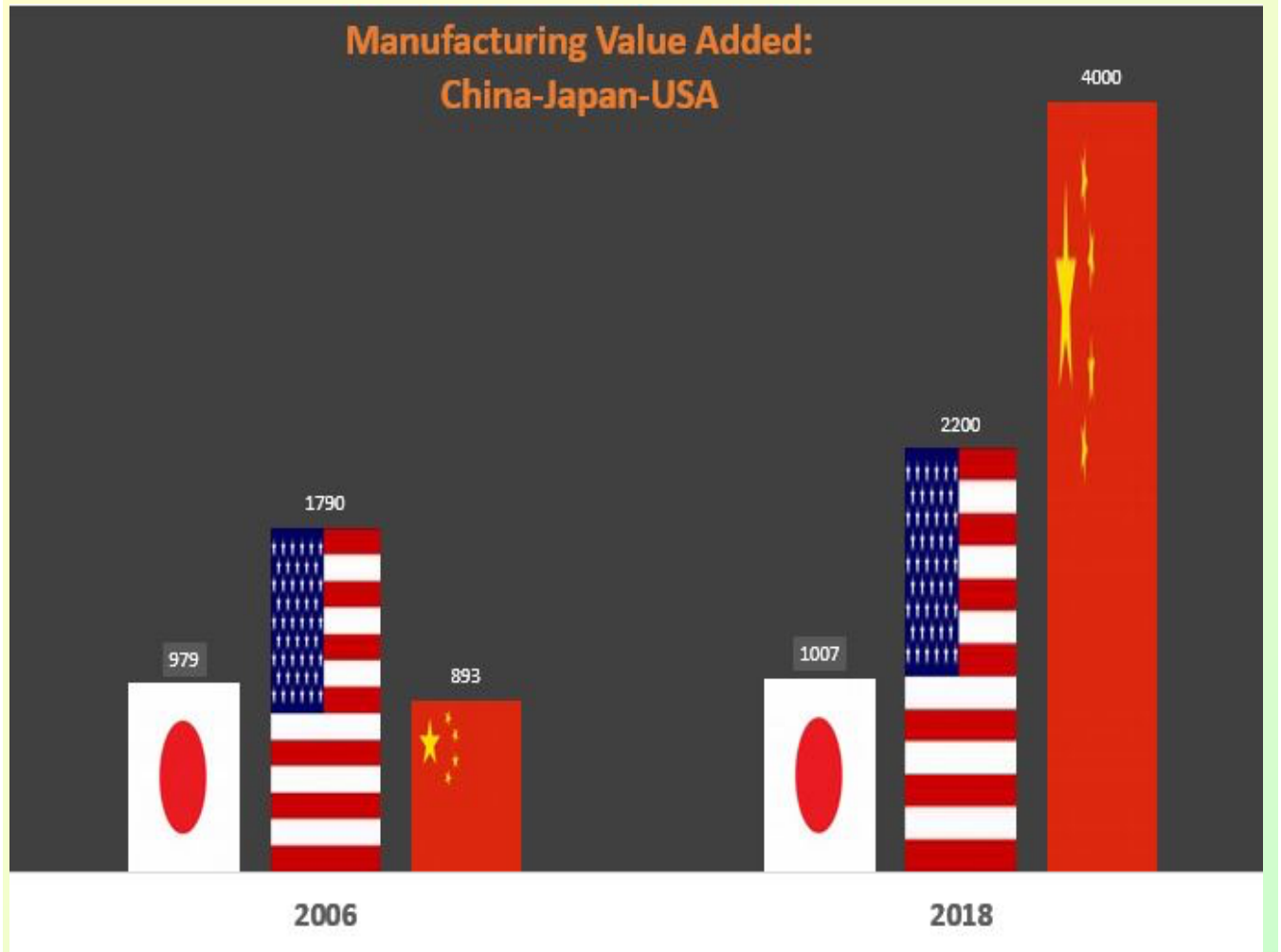
Martin Jacques, *When China Rules the World: the End of the Western World and the Rise of a New Global Order*

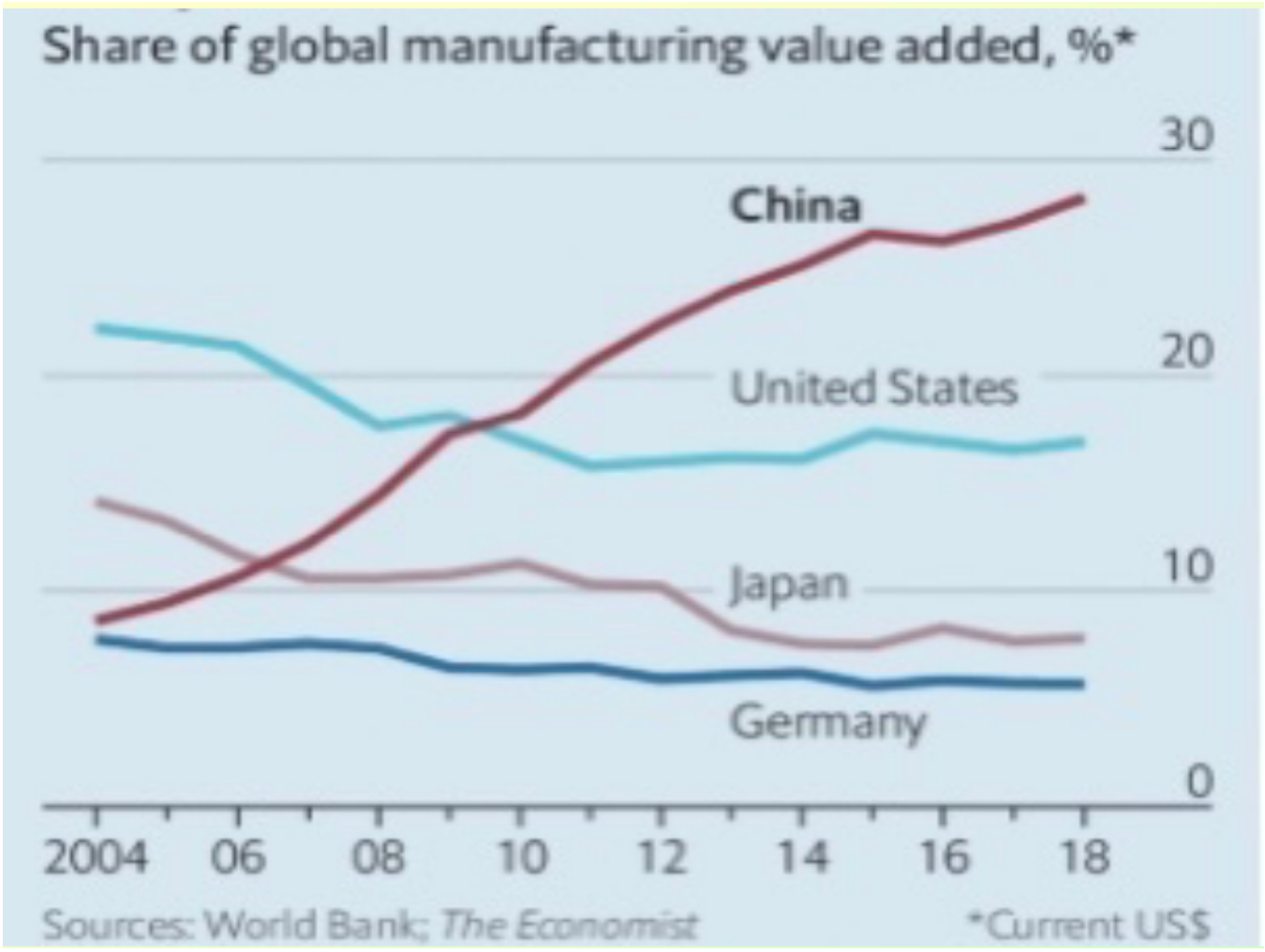

中国日报
Real GDP at PPP ($tn in 2014 prices)
20
15
10
5
0
United States
China
中国的国内生产总值赶超美国
according to this measure from the World Bank.
CHINA DAILY
1980
1985
1990
1995
2000
2005
2010
2015

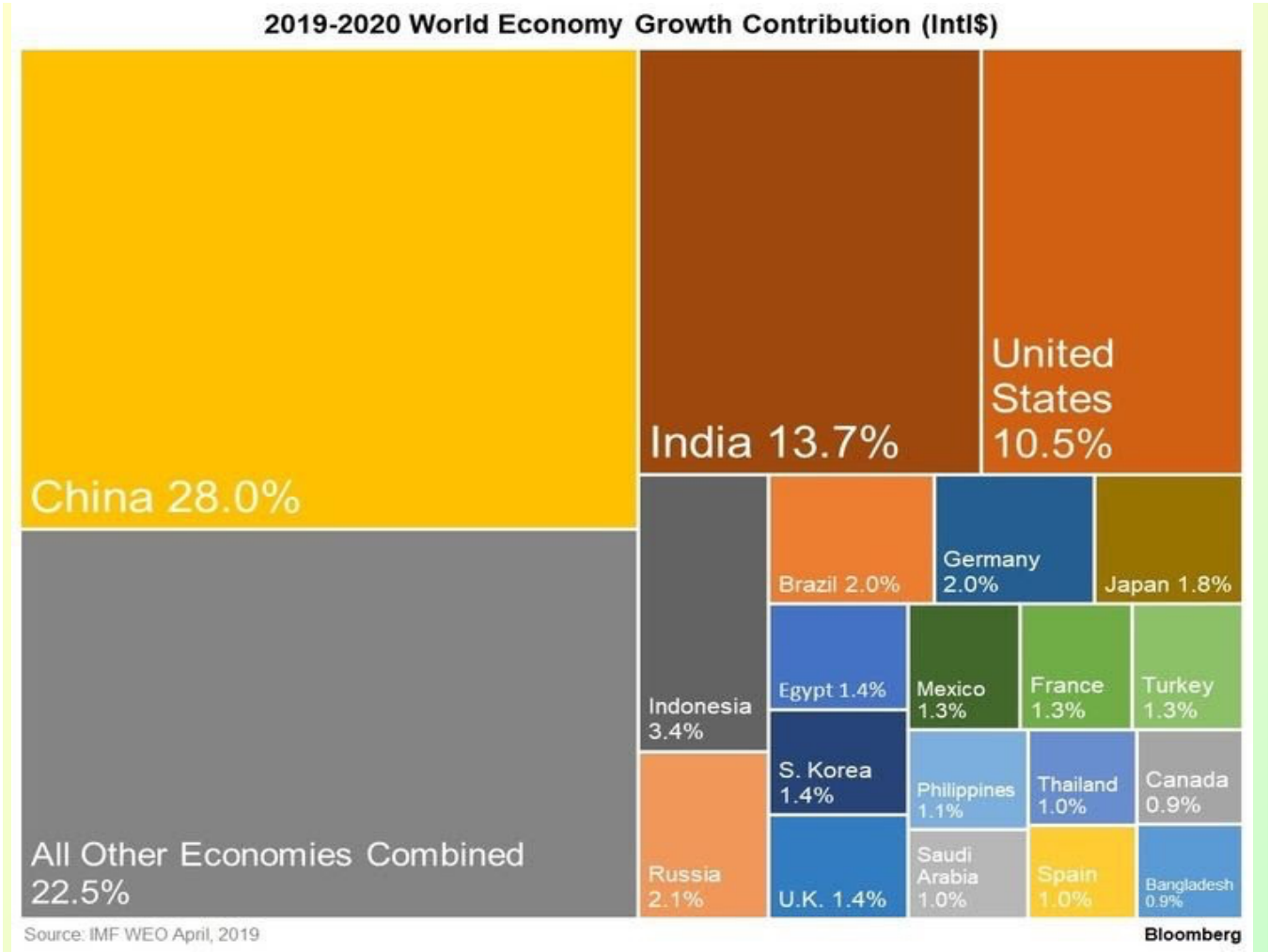

NOMINAL GDP: USA V. CHINA 1990-2018
1990
2000
2010
2018


GDP of Top 6 Countries
France
UK
Germany
Japan


Bloomberg Media: Image
Options
Annual Container Throughput
(mn teus)
China, 223
U.S., 41
Other, 71
Singapore, 34
S.Korea, 26
Malaysia, 21
UAE, 18
Netherlands, 14
Taiwan, 14
Vietnam, 14
Japan, 16
Spain, 13
Belgium, 11
Indonesia, 10
Germany, 15
India, 11
U.K., 9
Thailand, 8
Panama, 8
Sri Lanka, 7
Australia, 6


Manufacturing Value Added:
China-Japan-USA
979
1790
893
1007
2200
4000
2006
2018


Share of global manufacturing value added, %*
30
20
10
0
China
United States
Japan
Germany
2004
06
08
10
12
14
16
18
Sources: World Bank; The Economist
*Current US$


2019-2020 World Economy Growth Contribution (Intl$)
China 28.0%
India 13.7%
United States 10.5%
All Other Economies Combined 22.5%
Indonesia 3.4%
Brazil 2.0%
Germany 2.0%
Japan 1.8%
Egypt 1.4%
Mexico 1.3%
France 1.3%
Turkey 1.3%
S. Korea 1.4%
Philippines 1.1%
Thailand 1.0%
Canada 0.9%
Russia 2.1%
U.K. 1.4%
Saudi Arabia 1.0%
Spain 1.0%
Bangladesh 0.9%
Source: IMF WEO April, 2019
Bloomberg

Top 10 Countries, Ranked by Retail Ecommerce Sales, 2018 & 2019

billions and % change

	2018	2019	% change
1. China*	$1,520.10	$1,934.78	27.3%
2. US	$514.84	$586.92	14.0%
3. UK	$127.98	$141.93	10.9%
4. Japan	$110.96	$115.40	4.0%
5. South Korea	$87.60	$103.48	18.1%
6. Germany	$75.93	$81.85	7.8%
7. France	$62.27	$69.43	11.5%
8. Canada	$41.12	$49.80	21.1%
9. India	$34.91	$46.05	31.9%
10. Russia	$22.68	$26.92	18.7%

*Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales; *excludes Hong Kong*

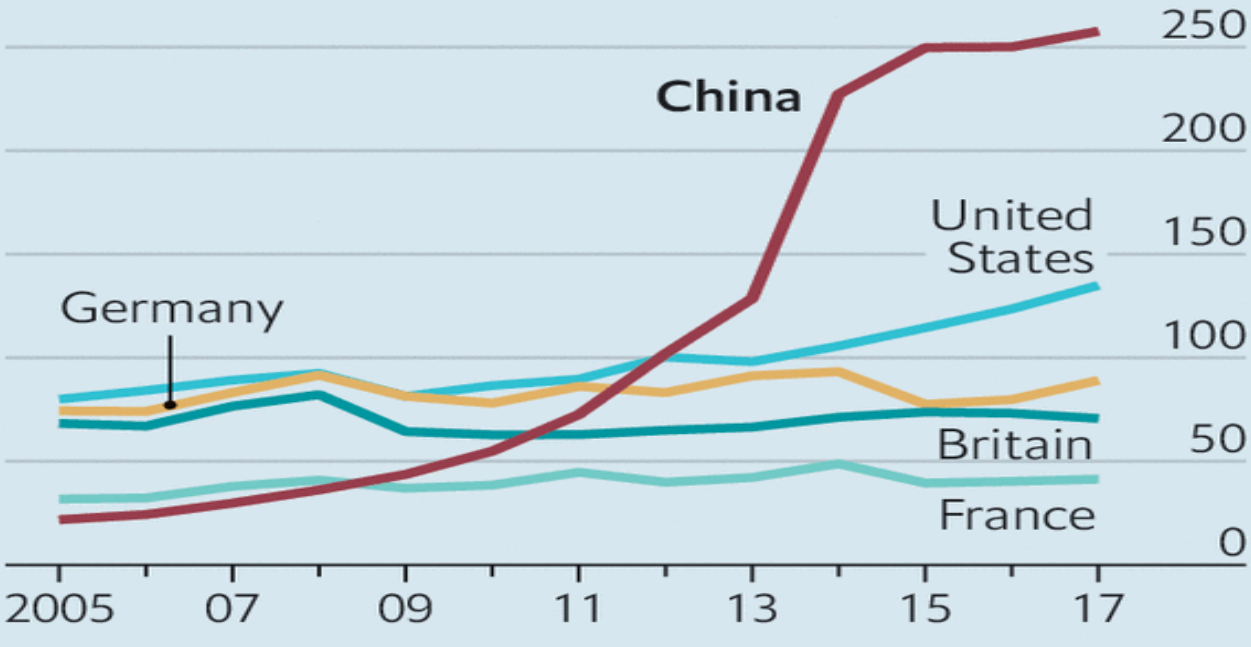
Source: eMarketer, May 2019

T10308 www.eMarketer.com

The red dollar

Tourism spending abroad

By country of residence, $bn

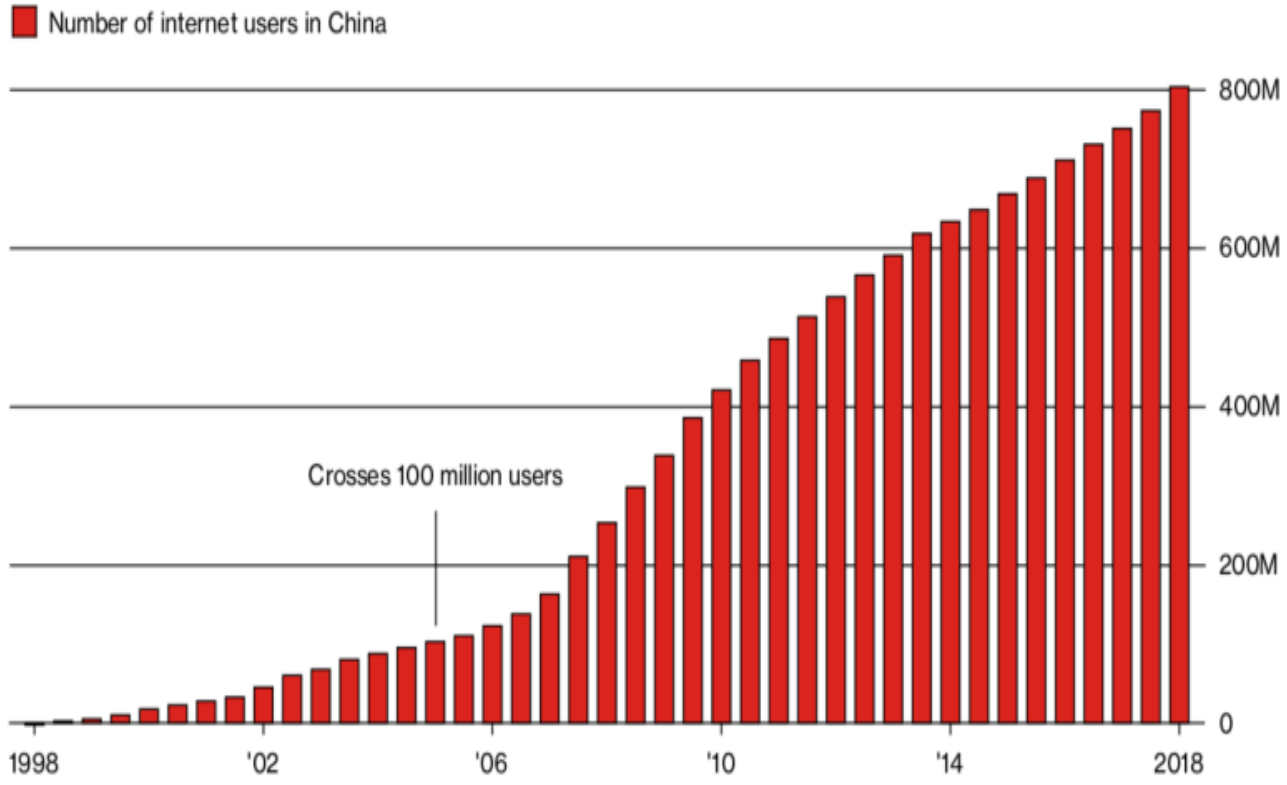


Source: UNWTO

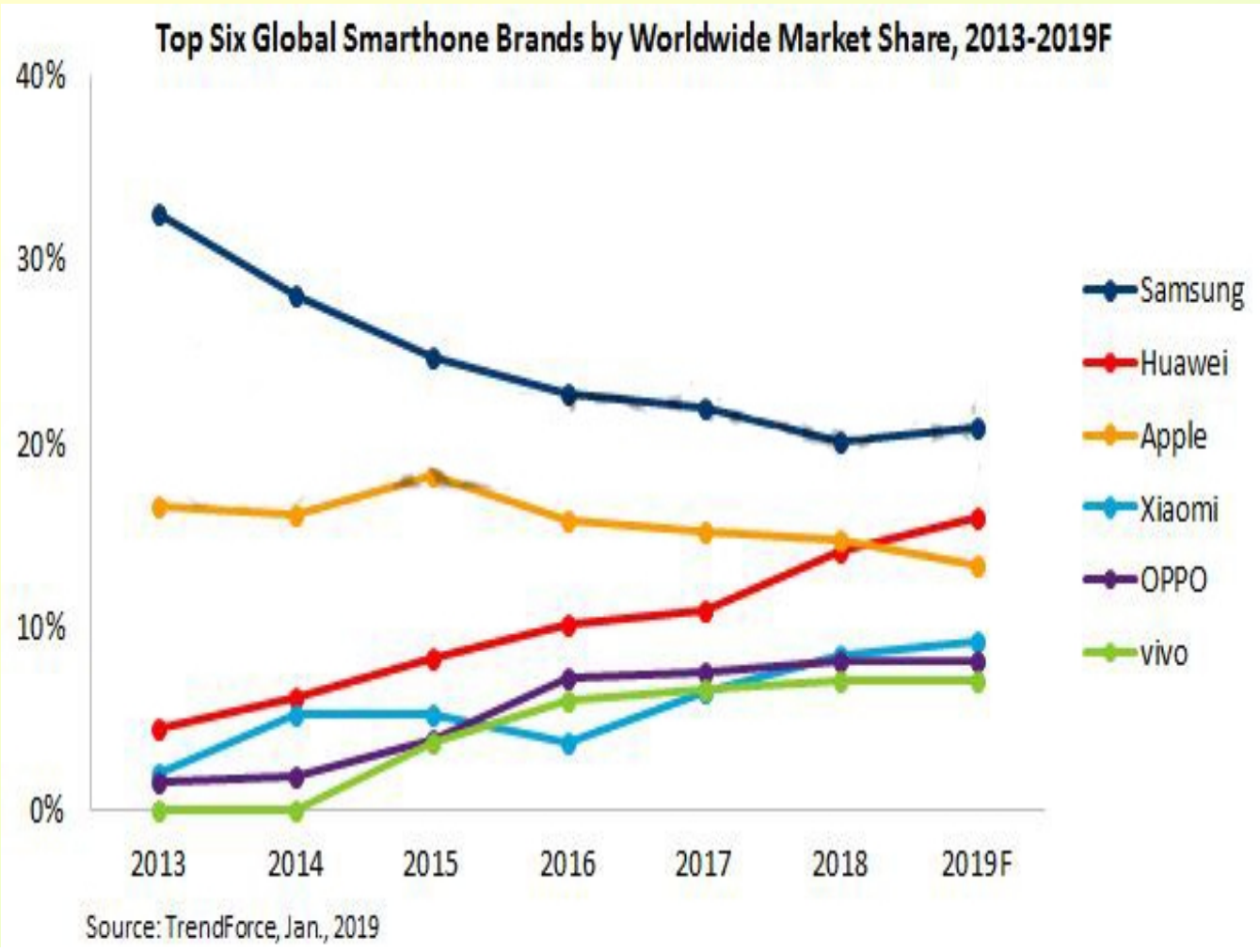
The Economist

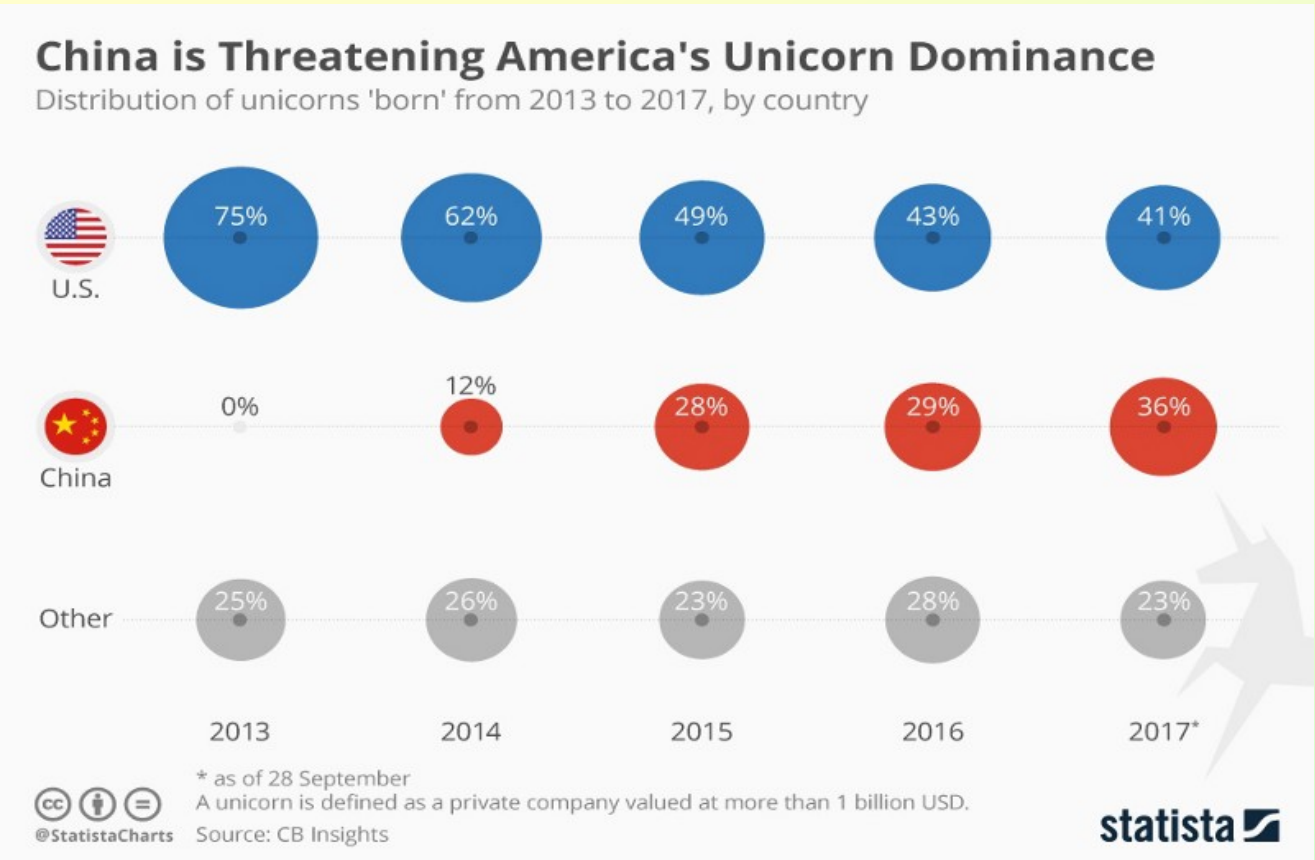
Web Supremacy

China internet users top combined population of Japan, Russia, Mexico and U.S.

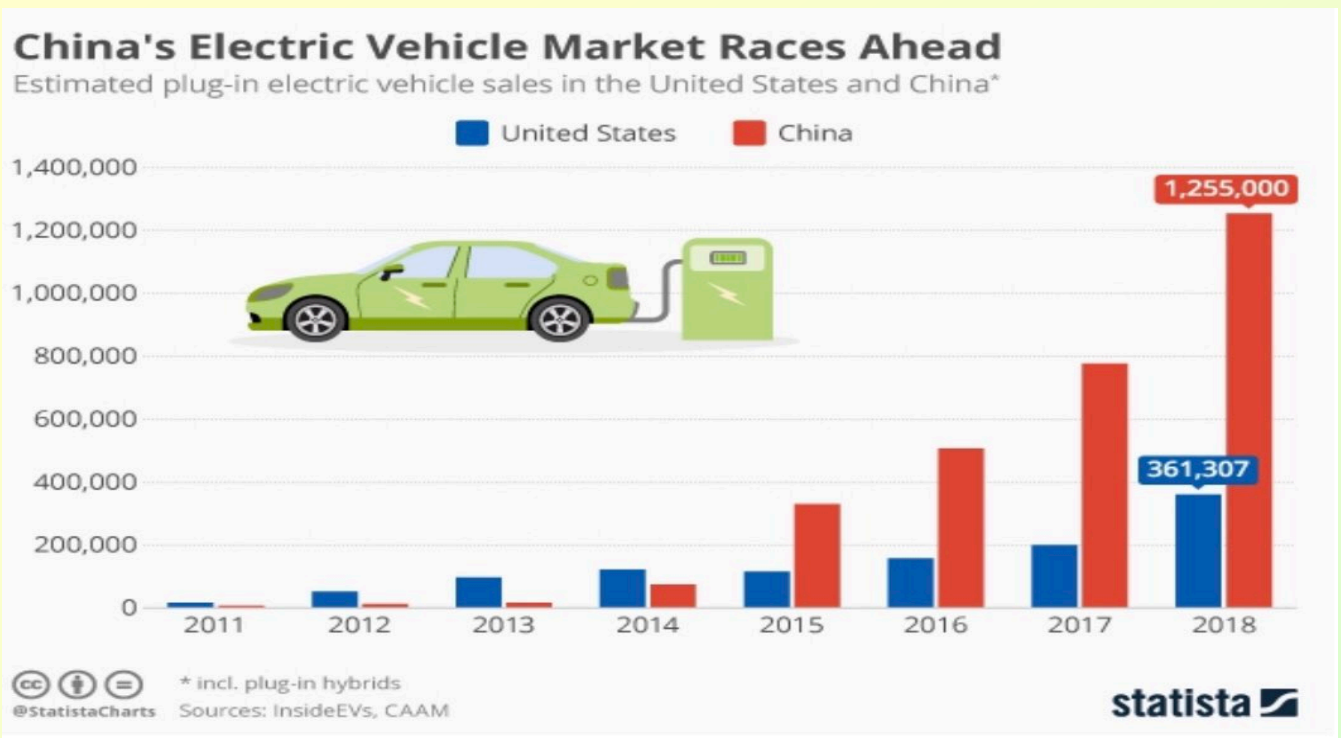


Data: China Internet Network Information Center; graphic by Bloomberg Businessweek





=> #2 in **Unicorns** (startup companies worth more than $1 billion). In 2020, the number of Unicorns are 227 in China versus 233 in the USA). Interestingly, 16 Unicorns in the US were founded by Chinese immigrants or Chinese Americans.

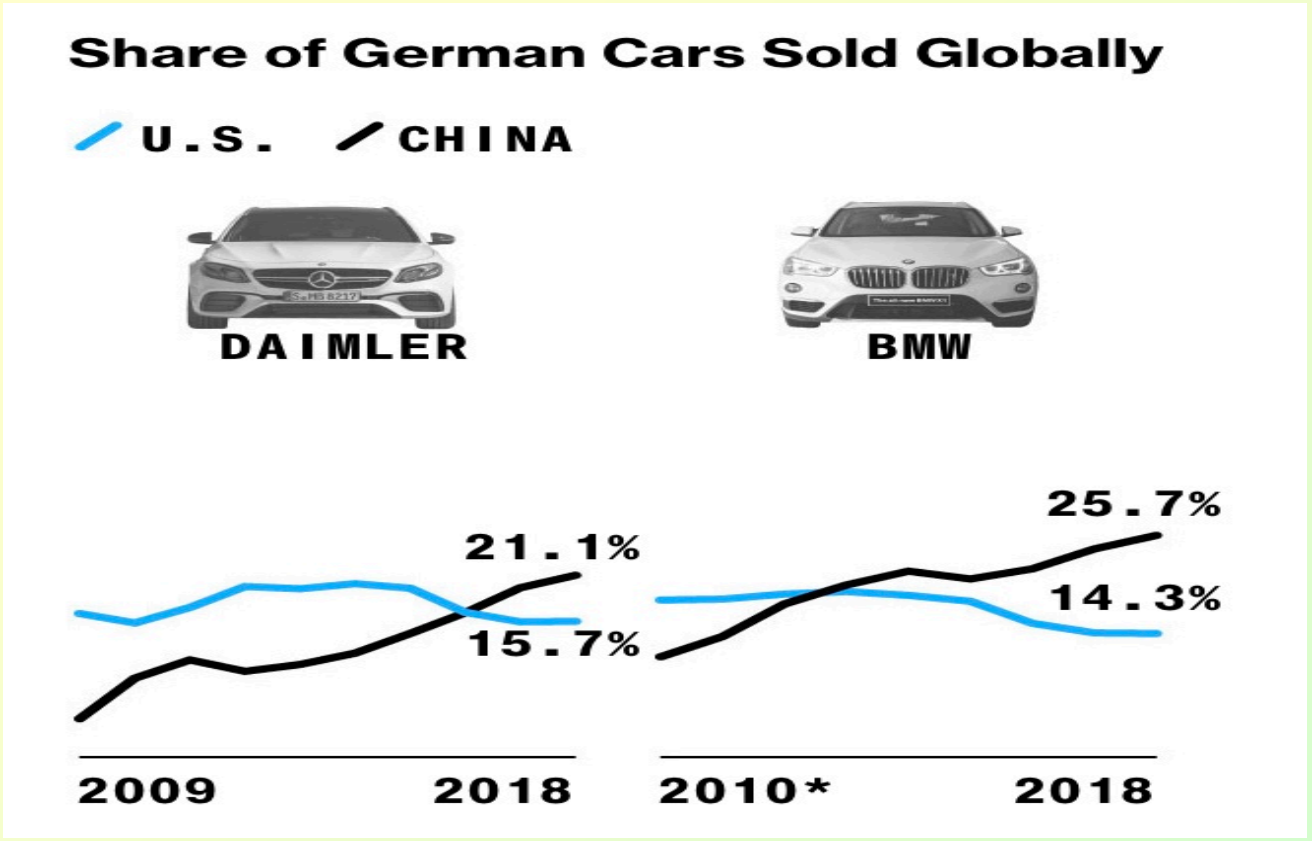


=> #1 in **electric cars – manufacturing and sales**

=> #1 in **consumer drones** (70% of global market)

=> #1 in **supercomputers** (227 out of the 500 supercomputers are Chinese)

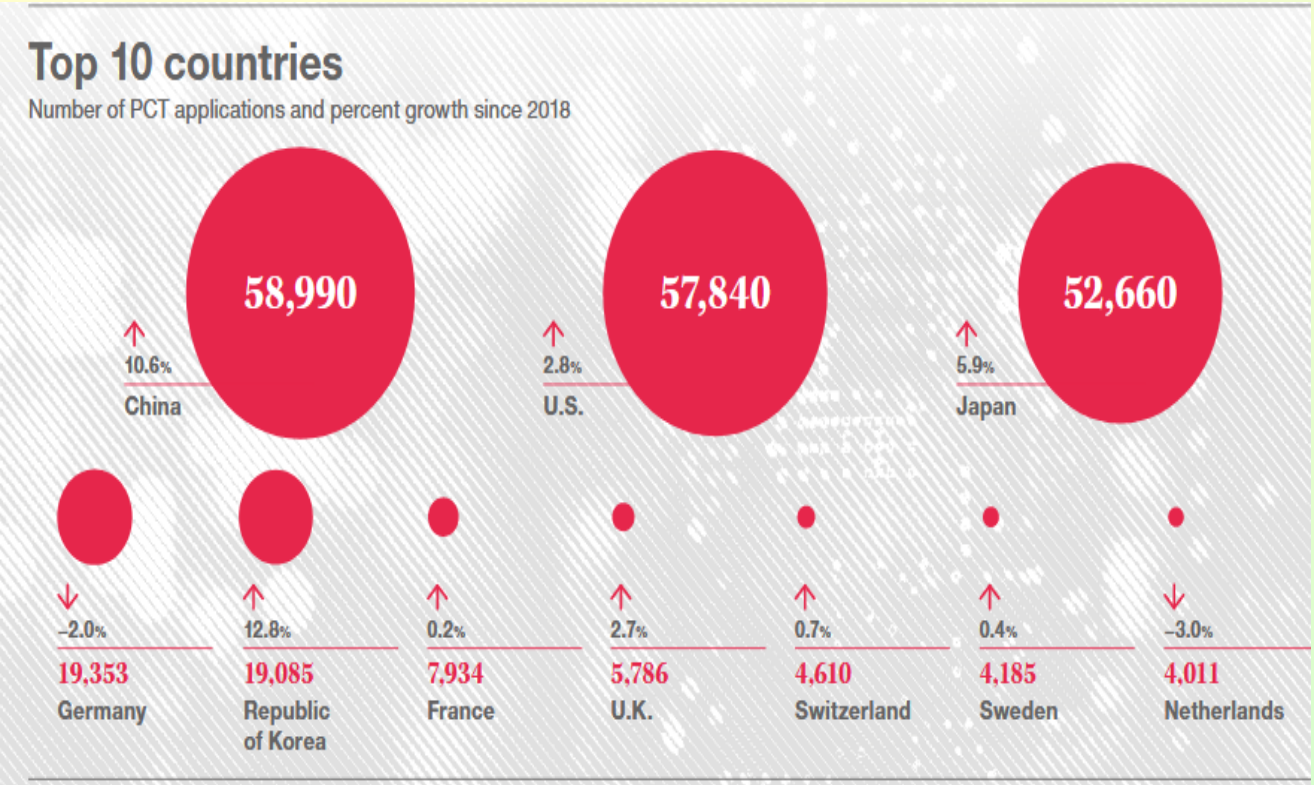
=> #1 in **mobile payments** (50x larger than the US)



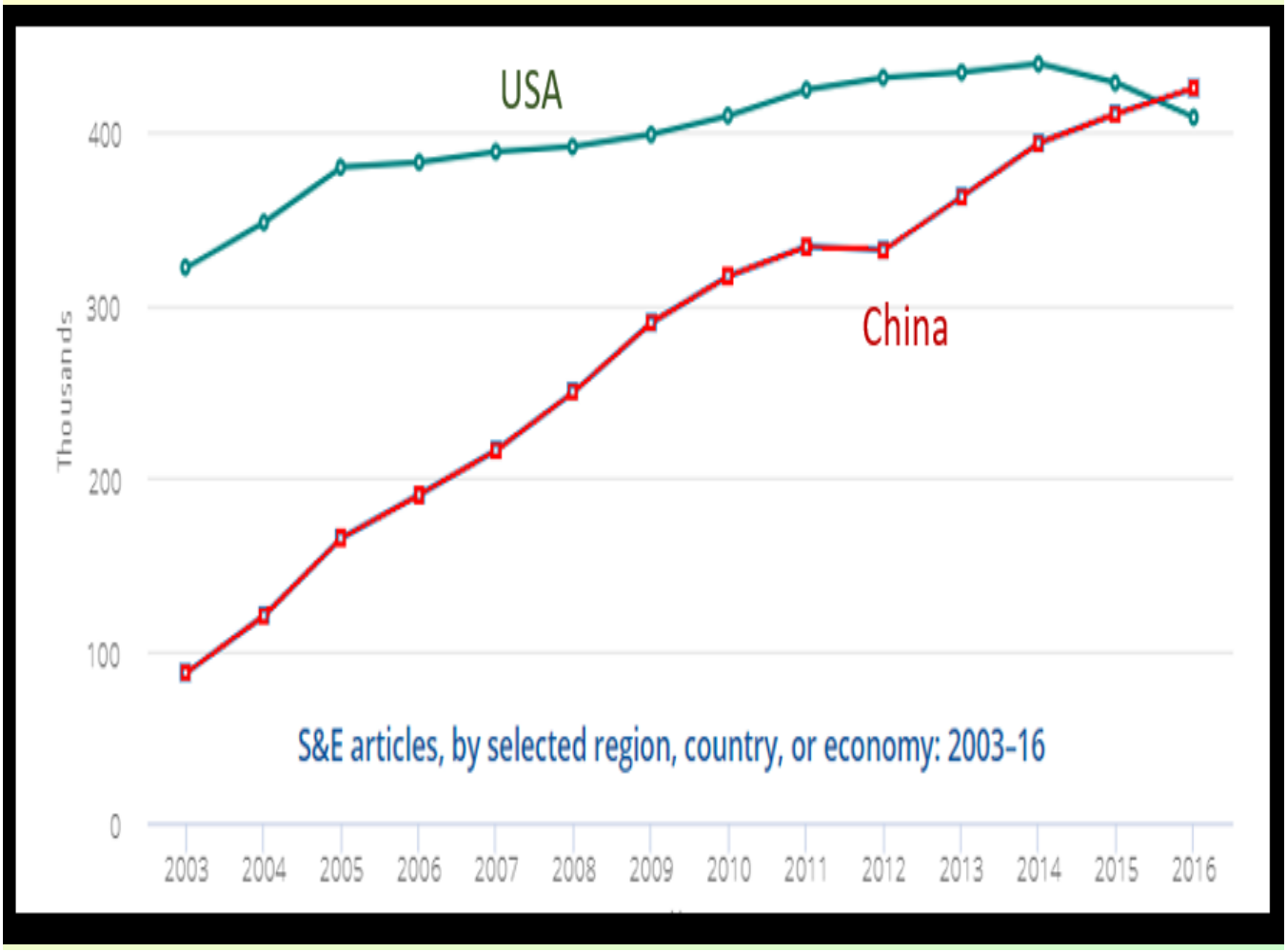
=> #1 **luxury car market** (Example: 400,000 BMW's manufactured and sold in China in 2017)

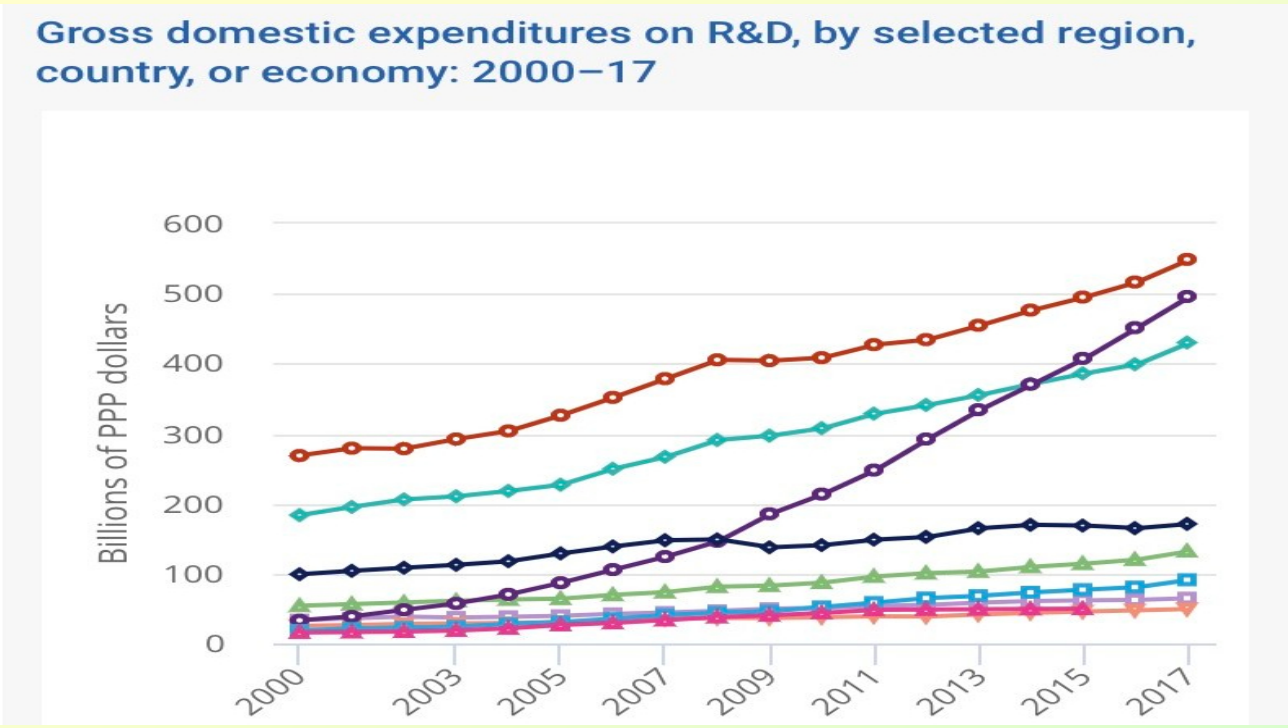
The Belt & Road Initiative - land routes



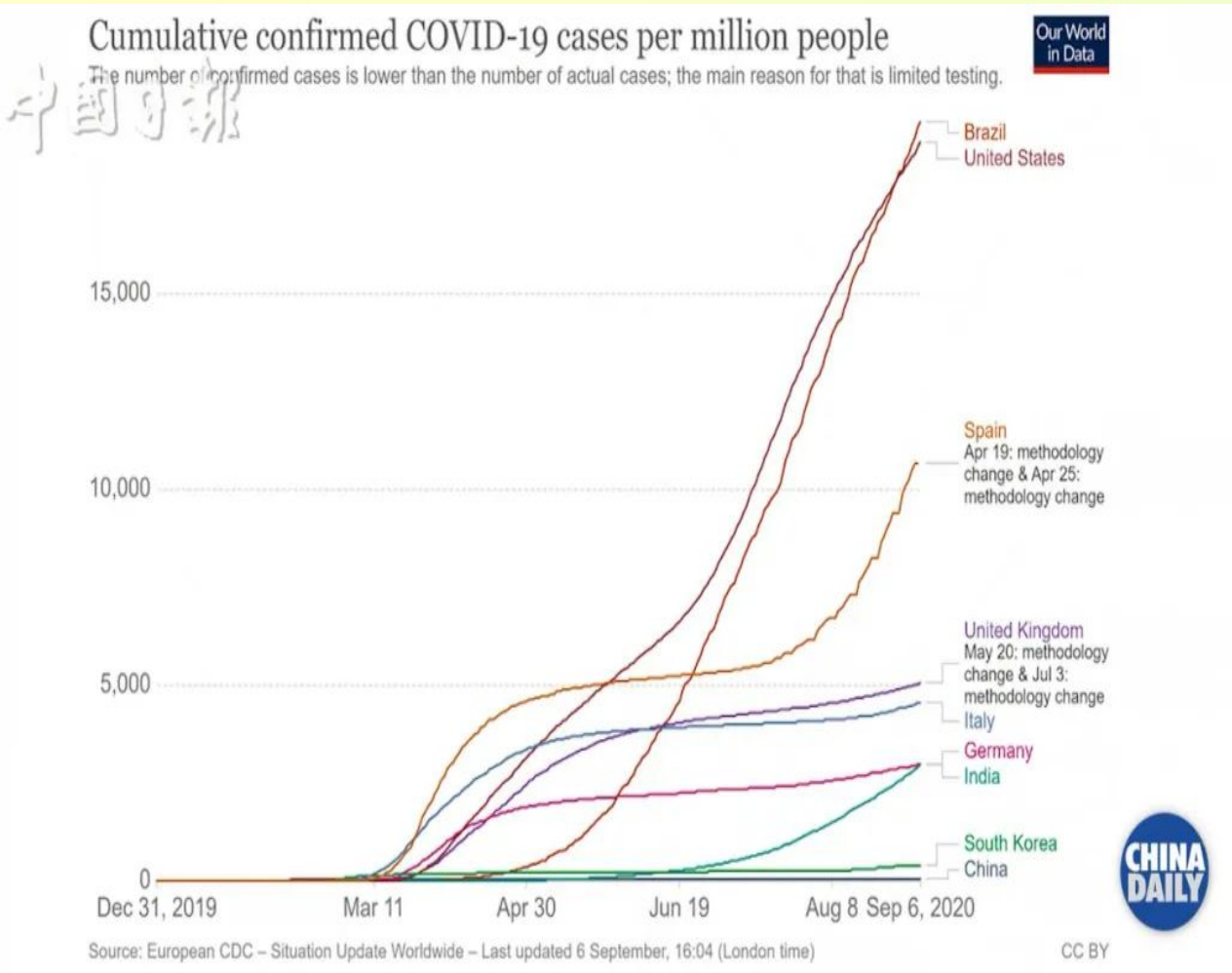


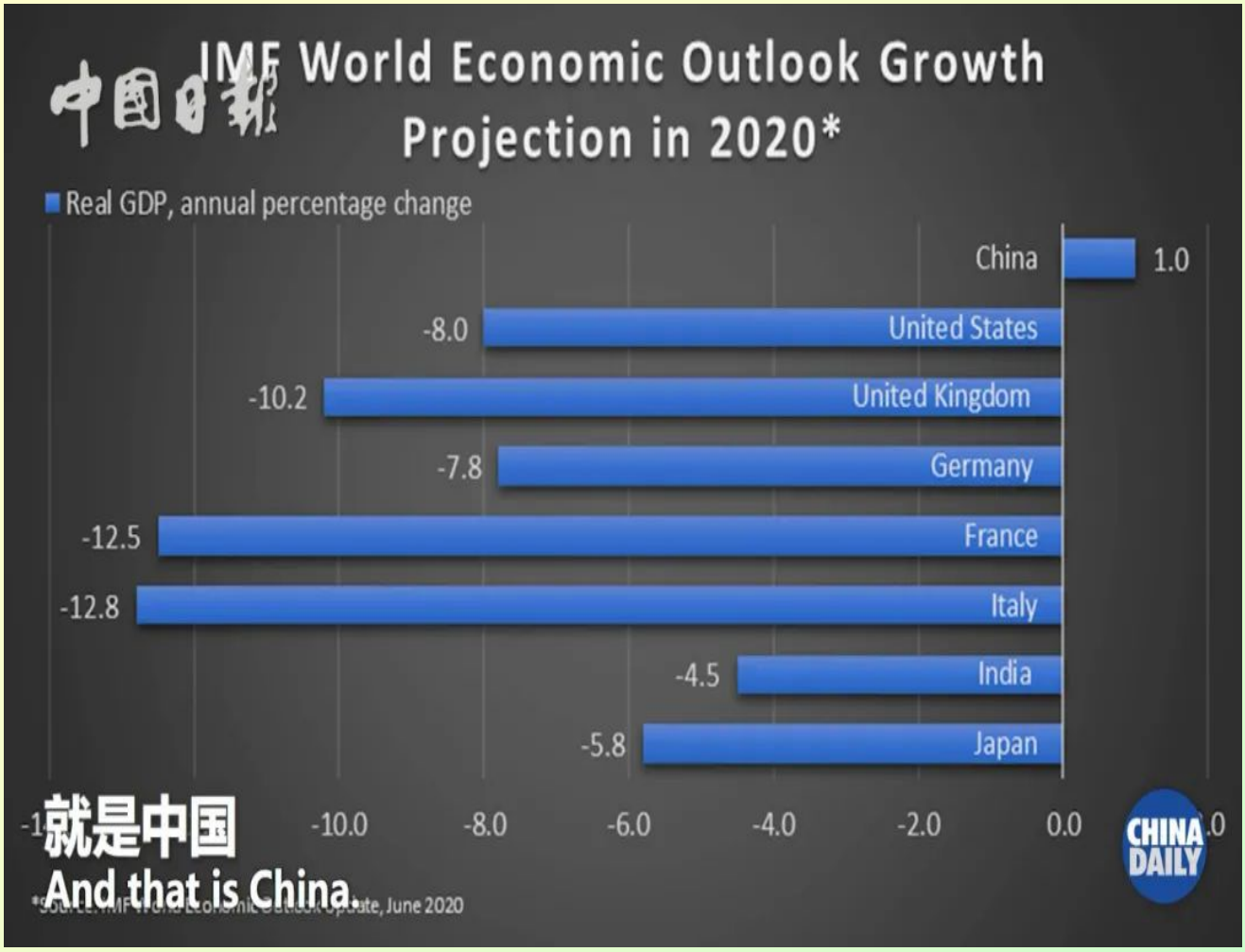
=> #1 in **patents** — accounting for almost half of all patents in the world!
=> #1 in **international patents** – according to World Intellectual Property Organization (WIPO). The US had been #1 since 1978 when WIPO/Patent Cooperation Treaty (PCT) was established. China had 58,990 international patents in 2019.





=> #1 in **R&D spending** in 2019 – according to US National Science Board; here's an updated article for 2020. In the chart below, brown = USA and purple = China. The chart shows only up to 2017.
=> #2 in number of **satellites** in orbit/space (280 satellites as of 2018). In 2018, China became the first country to land on the far side of the moon. In both 2018 and 2019, China was #1 in rocket launches.





Biggest U.S. trade deficits, by country
2017 deficit in goods, in billions (services are excluded)

RANK	COUNTRY	2017	2016	CHANGE	BIGGEST IMPORT
1	China	$375.2	$347	+28.2	Consumer electronics
2	Mexico	$71.1	$64.4	+6.7	Autos, electronics
3	Japan	$68.8	$68.8	0	Autos, electronics
4	Germany	$64.3	$64.7	-0.4	Autos, transportation
5	Vietnam	$38.3	$32	+6.3	Rice, crops
6	Ireland	$38.1	$36	+2.1	Chemicals, drugs
7	Italy	$31.6	$28.6	+3	Machinery
8	Malaysia	$24.6	$24.8	-0.2	Consumer electronics
9	Netherlands	$24.5	$23.6	+0.9	Chemicals, machinery
10 (tie)	India	$22.9	$24.4	-1.5	Manufacturing, clothes
10 (tie)	South Korea	$22.9	$27.6	-4.7	Autos, electronics

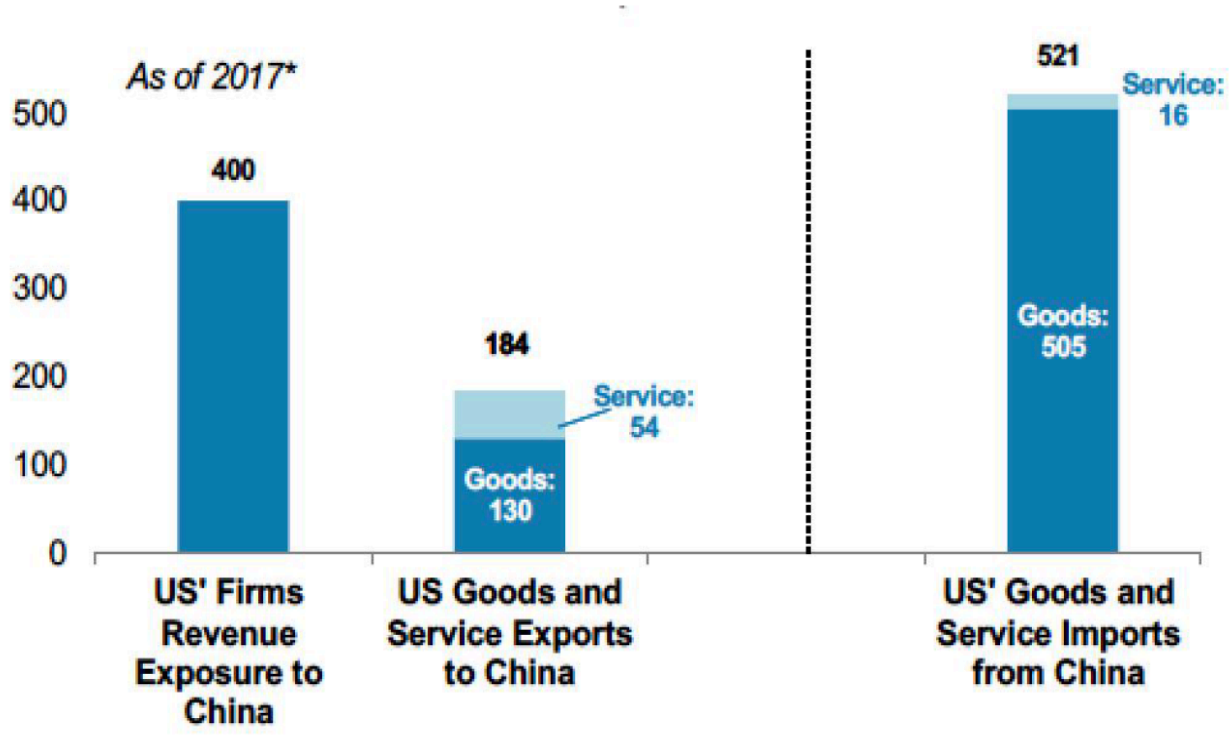
Source: Bureau of Economic Analysis, U.S. Census

Figure 17: A contrast of household asset structure in China and the US

	China	US
Composition of household assets (%)		
Non-financial assets	6	6
Real estate	54	24
Financial assets	41	71
Composition of household financial assets (%)		
Cash and savings	75.7	14.4
Stock shares	15.5	21.7
Wealth management products of banks and funds	6.5	10.2
insurances	-	28.9
Others	2.3	24.8

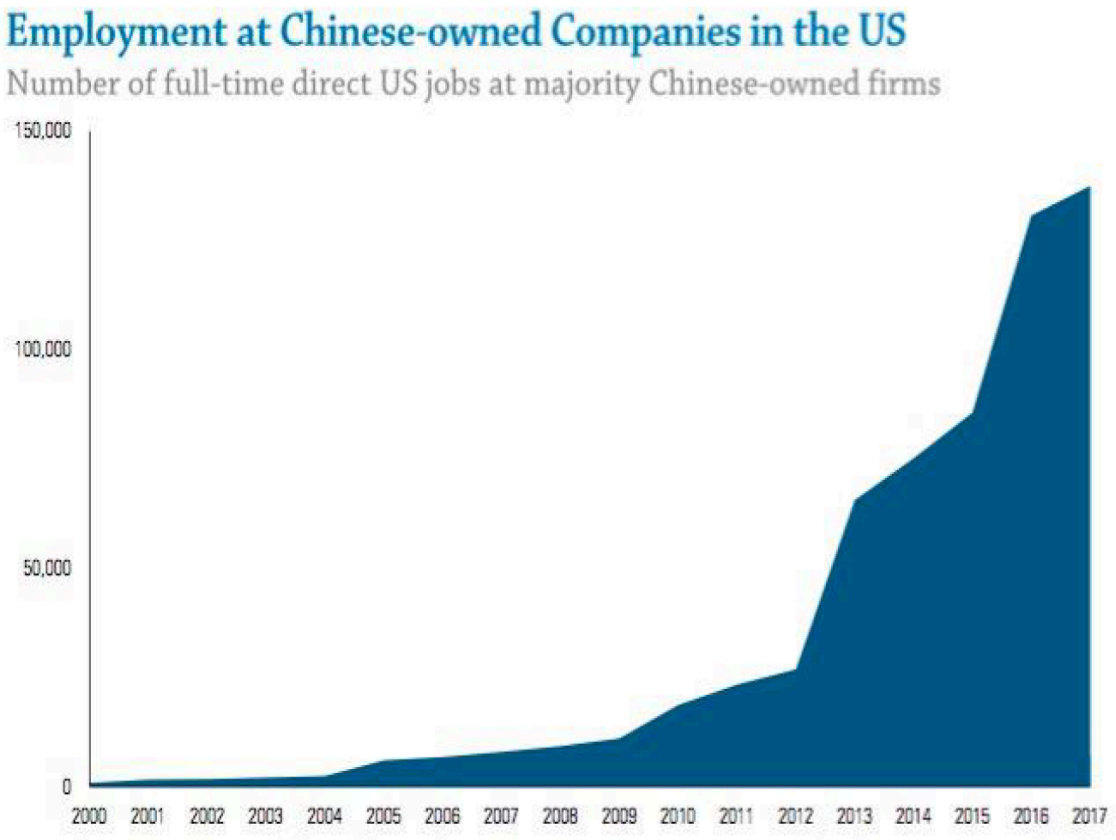
Sources: Wind, US Federal Reserve, 'China Household Finance Survey 2017', Morgan Stanley

Fig 1. US business interests in China
Source: Morgan Stanley, 2018

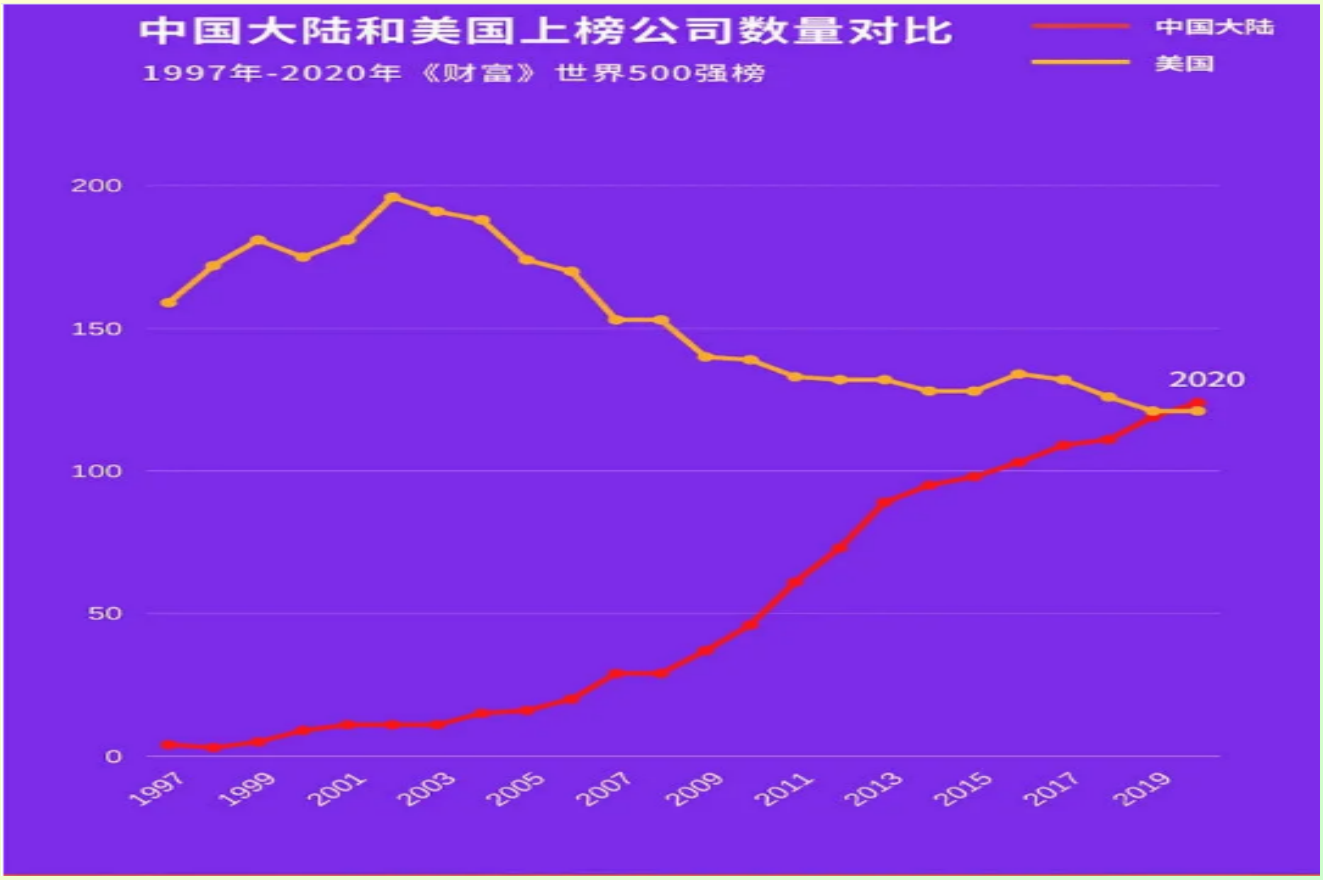


Employment at Chinese-owned Companies in the US

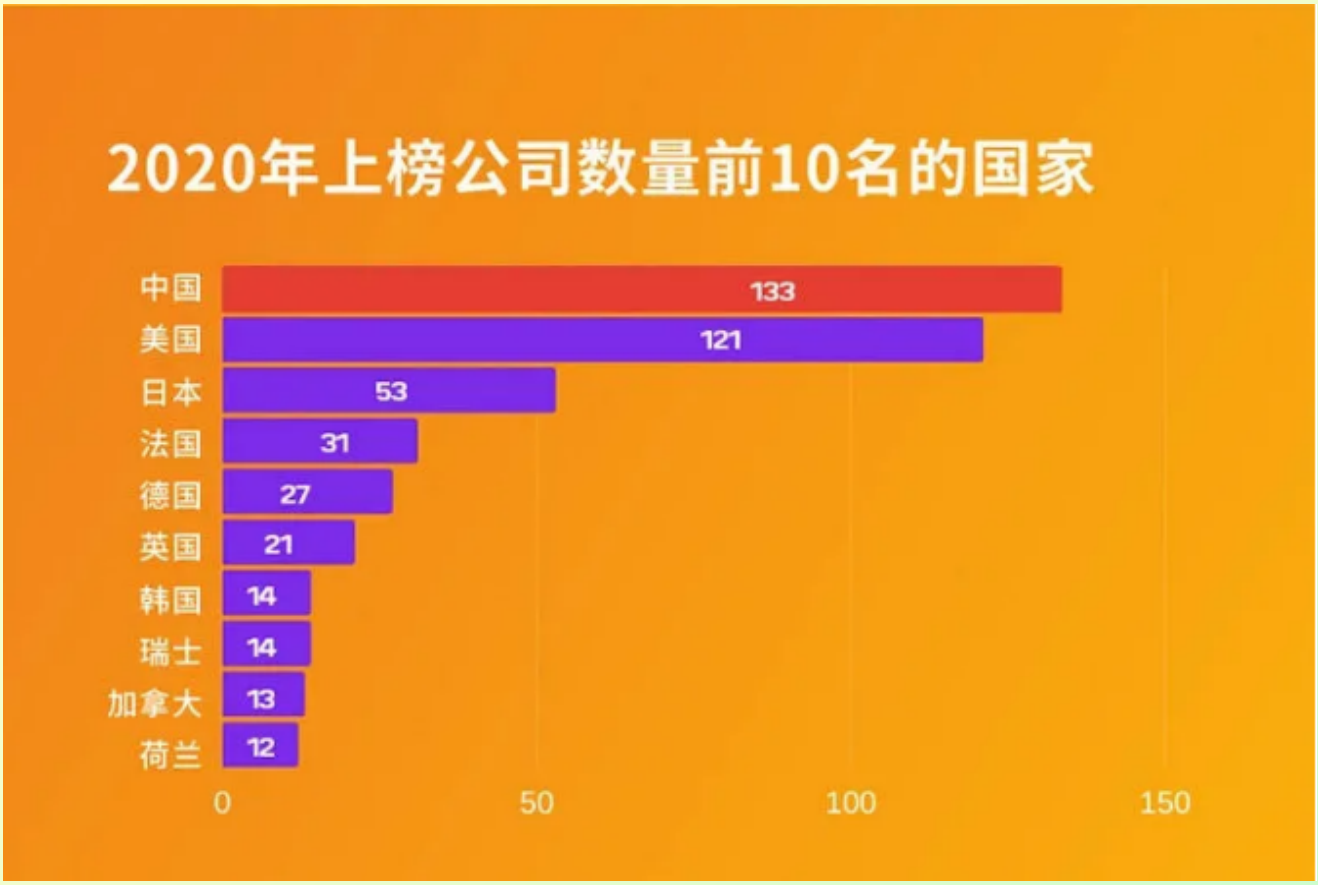
Source: Rhodium Group



Fortune Top 500 companies (2020)



Fortune Top 500 companies (2020)



Fortune Top 500 companies (2020)



Fortune Top 500 companies (2020)



Fortune Top 500 companies (10.2019)

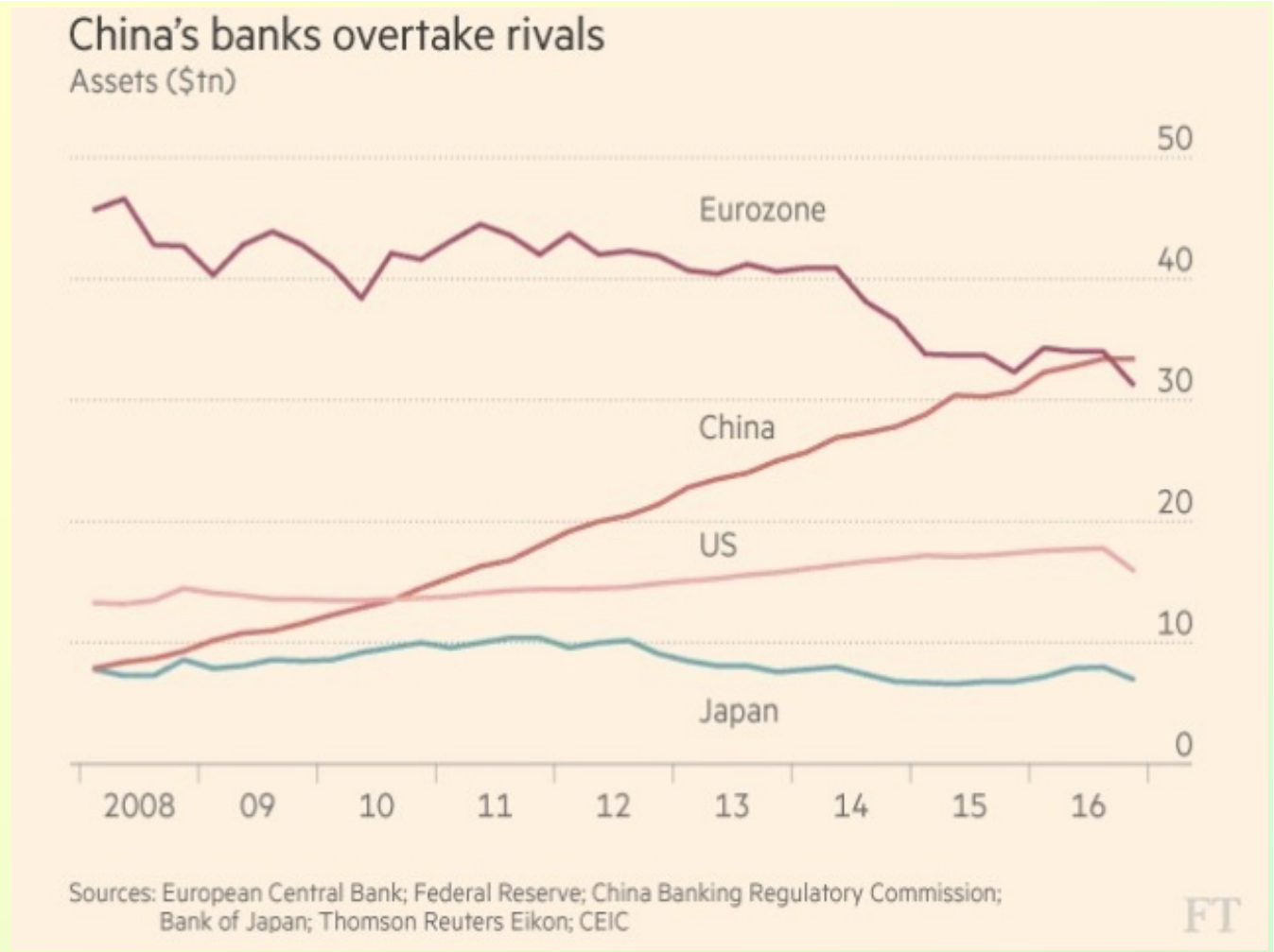
- China -129 (8) (1999)
- USA - 121

Top 10 largest companies
-China - 3
-USA - 2
-Netherlands, Saudi Arabia, UK, Germany, Japan - 1

Top 10 largest banks
-China - 5
-US - 4
-Spain - 1

Fortune Top Ten in Top 500 companies (10.2019)

1. Walmart (USA)
2. Sinopec Group (China)
3. Shell (Netherlands)
4. China Petroleum (China)
5. State Grid (China)
6. Saudi Aramco (Saudi Arabia)
7. British Petroleum (UK)
8. Exxon Mobile (USA)
9. Volkswagen (Germany)
10. Toyota (Japan)



Top 10 largest bank in the world (10.2019)

1. ICBC
2. CCB
3. ABC
4. JP Morgan Chase
5. Bank of China
6. Bank of America
7. China Development Bank
8. Wells Fargo
9. Citigroup
10. Banco Santander

The Rise of China

Size of its diplomatic network

China has 276 diplomatic posts—including embassies, consulates, and permanent missions to international organizations. United States' network stands at 273, down one post since 2017.

The Rise of China

HOW CHINA WIN FRIENDS

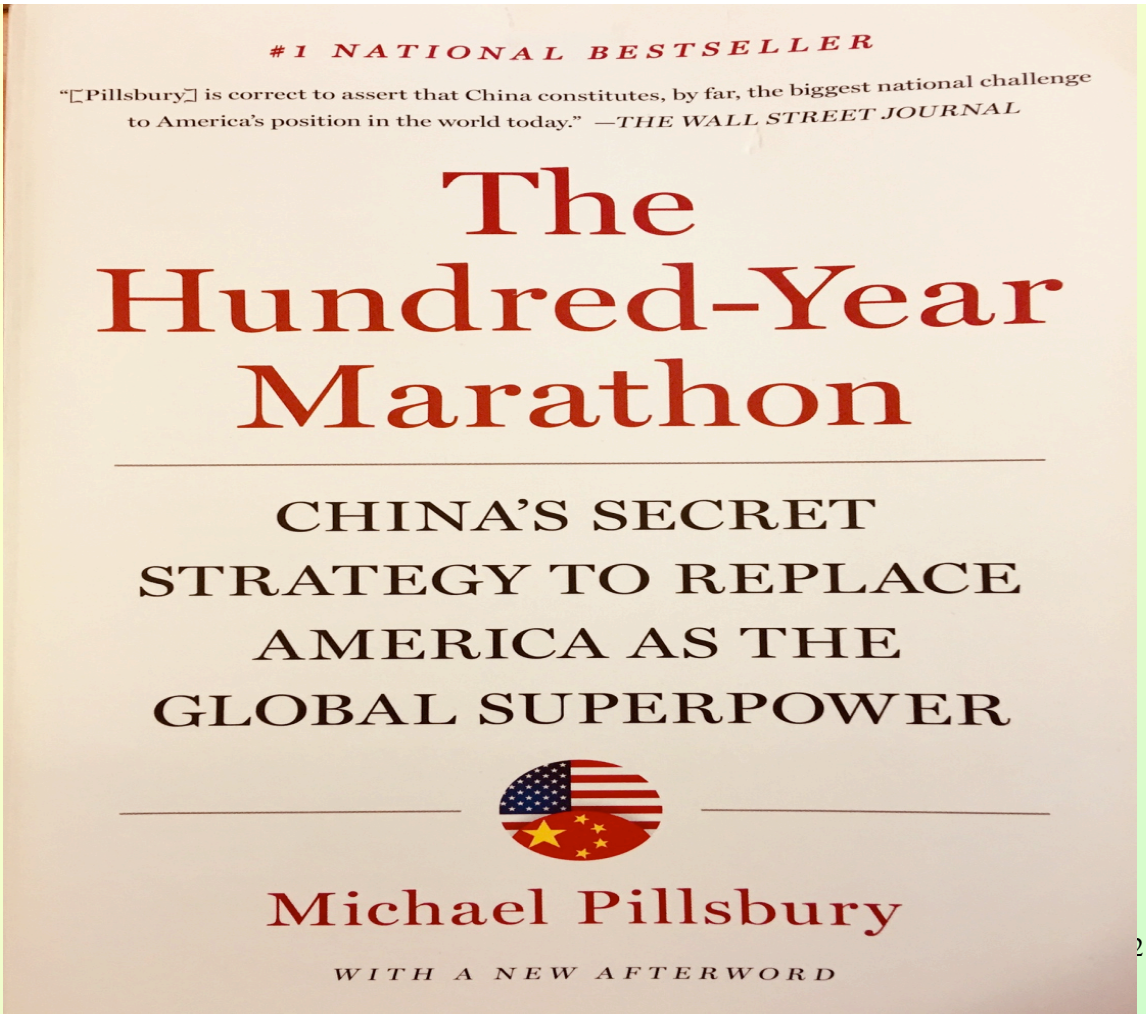
•China's ascent to the top spot has been rapid. The Lowy Institute's Global Diplomacy Index **tracks diplomatic networks around the world.**

•2011, Beijing lagged 23 posts behind Washington.

•2016, it was only eight posts behind, in third place behind the United States and France.

• 2017, it climbed to second place, overtaking France,

•2019 moving into first place ahead of 60 other major diplomatic networks.



DIPLOMACY

TRUMP WAS URGED TO HOLD BACK ON TAIWAN

White House adviser told president-elect to have no more phone calls with Tsai Ing-wen only to see the US leader break protocol and infuriate Beijing

Wendy Wu
wendy.wu@scmp.com

White House adviser Michael Pillsbury says even before Donald Trump took office, he told the US president-elect to show restraint in managing America's relations with China – including no more phone calls with Taiwanese leader Tsai Ing-wen. And Trump took his advice to build constructive ties with the country and a personal relationship with President Xi Jinping, Pillsbury said.

But Trump abandoned decades of protocol on December 2016 – about a month before he took office – by taking a phone call from Tsai congratulating him on winning the presidency.

It was the first such conversation between a US president or president-elect and a Taiwanese leader since 1979, when Washington switched formal diplomatic ties from Taipei to Beijing.

After the call, Trump tweeted: "Interesting how the US sells Taiwan billions of dollars of military equipment but I should not accept a congratulatory call."

The call infuriated Beijing, which warned the foundation of China-US relations would be jeopardised if the one-China policy was not respected.

Pillsbury called it a "mistake" to accept the call, saying at the time he was the only China expert in the Trump transition team advising against further phone conversations with Tsai.

"One of my suggestions was no more phone talks with Tsai," Pillsbury said. "At that time, I received a lot of criticism from the hawkish camp in the US – they said you should talk to Tsai once a month, and invite Tsai to the US."

Two months later, the White House said Trump had agreed, at Xi's request, to honour the US' one-China policy, under which the US "acknowledges" Beijing's stance but takes no position on Taiwan's sovereignty.

Pillsbury said Trump had taken a different approach to China relations than his predecessors, who "all repeat, like robots, the exact words of the three communiques". He was referring to three joint statements made by the US and China in 1972, 1979 and 1982, which have served as the basis of bilateral ties.

Under the US' one-China policy, first stated in the Shanghai communique of 1972, "The United States acknowledges that Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States does not challenge that position."

According to Pillsbury, Trump said he would abide by the one-China policy not because previous presidents had done so, but because "it was a request from his friend, President Xi".



White House adviser Michael Pillsbury. Photo: Wendy Wu

"In other words, he's negotiating with President Xi," Pillsbury said. "He probably has closer relations with a Chinese leader than any other [US] president.

"There is some kind of admiration Trump has for Xi," he said, drawing "a little bit of parallel" between the two leaders who were both pushing "patriotic" movements – Trump's "Make America Great Again" and Xi's Chinese dream of national rejuvenation.

Although there have been more phone calls between Trump and Tsai, Washington has taken steps to elevate US relations with Taiwan, including encouraging more exchanges between senior officials from the two sides.

Last month, Brent Christensen, director of the American Institute in Taiwan, the de facto US embassy in Taipei, announced the US and Taiwan had agreed to set up an annual dialogue on Indo-Pacific Democratic Governance Consultations.

"It's understood in China's provocation and undermining the one-China principle as we call it. But from the American point of view, it is consistent with what President Trump called the one-China policy," he said.

China's development strategy

1840 - 1949 Suffered humiliation by the West
1949 - 2049 Regain its position in the world

1. Mao started the great leap forward with the aim of overtaking Britain & US.
2. 1950-60: Didn't want to be under no. 2 USSR but used USSR to help its development.
3. Benefited from the cold war between US & USSR.
4. 1970-2000: Using US assistance to develop its four modernizations.

China's development strategy

1. 1971 Nixon's visit to China, started to get US aid on foreign investment, technology, political support and access to US market for its products.
2. The US policy makers believed that the economic reform would be followed by a political reform for a democratic government like the US but China didn't not follow that.
3. President Carter sent all kind of assistance to China, including scientists from MIT, Columbia, Stamford; receiving students to study science & technology in US universities, providing weapons & intelligence to counter the USSR.

China's development strategy

1. US helped China's development to counter the influence of the USSR.
2. Since the breakup of USSR in the early 1991 and the rise of China, US's relationship with China has also changed.
3. When China was not that strong, US treated it as a partner and market for the US companies.
4. Now China is the no.2 economy trying to overtake the US, US regards it as a competitor to be contented.

World's No.1 Super Power

- 18th Century: Netherlands
- 19th Century: United Kingdom
- 20th Century: USA
- 21st Century: China (?)

World's No.1 Super Power

- The UK replaced Netherlands in the 19th Century and US replaced UK and became the No.1 super power in the early 20th Century.
- US has been challenged by Germany, USSR, and Japan along the way but US managed to fend off these challenges.
- There is little problem for UK to replace Netherlands, and US to replace UK as they share similar Values, political system, culture, and ethnicity.
- US does not like to be over taken by China which has very different Values, political ideology & system, culture, ethnicity

How US became No.1 Super Power

- US gets the best students from other countries such as India, China, Israel to study in its top universities (50% of Ph.D students are foreign born) and allows them to stay after graduation.
- It uses the H1B visa to import special skill and talent technology workers.
- US protects its domestic market, providing financial subsidies to its companies, stole technologies from UK and Germany.
- With the help of the government, US companies GE passed Siemens, GM passed VW, Exxon/Mobile passed BP & Shell.

The benefits of being no.1

- Dictate the global rule of the game.
- Extend domestic law beyond its border.
- Influence its allies.
- Protect the US dollar as the dominant international currency.
- Dominate the world media, culture and value system.

China's Strategy to Regain its Position

- China's think tanks studied how the US became no.1 and then followed all the US's strategies.
- China received advice from the World Bank's Beijing office.
- China did not privatize its SOEs like the USSR did.
- China set up its financial system, central bank, stock market, capital market, currency market, and mortgage systems with the help of experts from Hong Kong and the US.

US strategies to keep its no.1 position

- Using similar strategies to stop the challenge of USSR and Japan in the 1980s and 1990s. For Japan, forced the Yen to rise, weakened the competitiveness of Japanese products, targeted and attacked the top technology companies like Toshiba. For USSR, political breakdown of the Union's states.

US's Strategies: Facing Challenge from China

- Slowdown China's rising speed,
- Target China's top technology companies, like Huawei.
- Team up with its allies (5 Eyes) to put pressure on China
- Engage China in a trade war
- Engage China in a cold war

The China-US competition

- **The China 2025 plan alerted the US.**
- Trump's goal is to disrupt the plan & slowdown China's development.
- Trade war is only part of a wide competition between US and China. Other areas including currency war, technology war, political ideology, culture and value systems.
- US Presidential election in 2020: Both US parties view China as a major competitor and policy towards China won't change regardless who wins the election.
- The China market is too big for any US companies to give up.

US-China relations

US's 6 T Issues with China:

-Trade/tariff, Taiwan, Technology/IPR,
Territory/South China Sea, Temperature control, Trust.

Republican and Democratic Parties' views:

- Back to Asia policy to rebalance the power in Asia.
- Not happy with opening up of market after entering WTO as promised,
- Democratic development, human rights issue.

Fourth US Committee on the Present Danger: China (CPDC) 2019

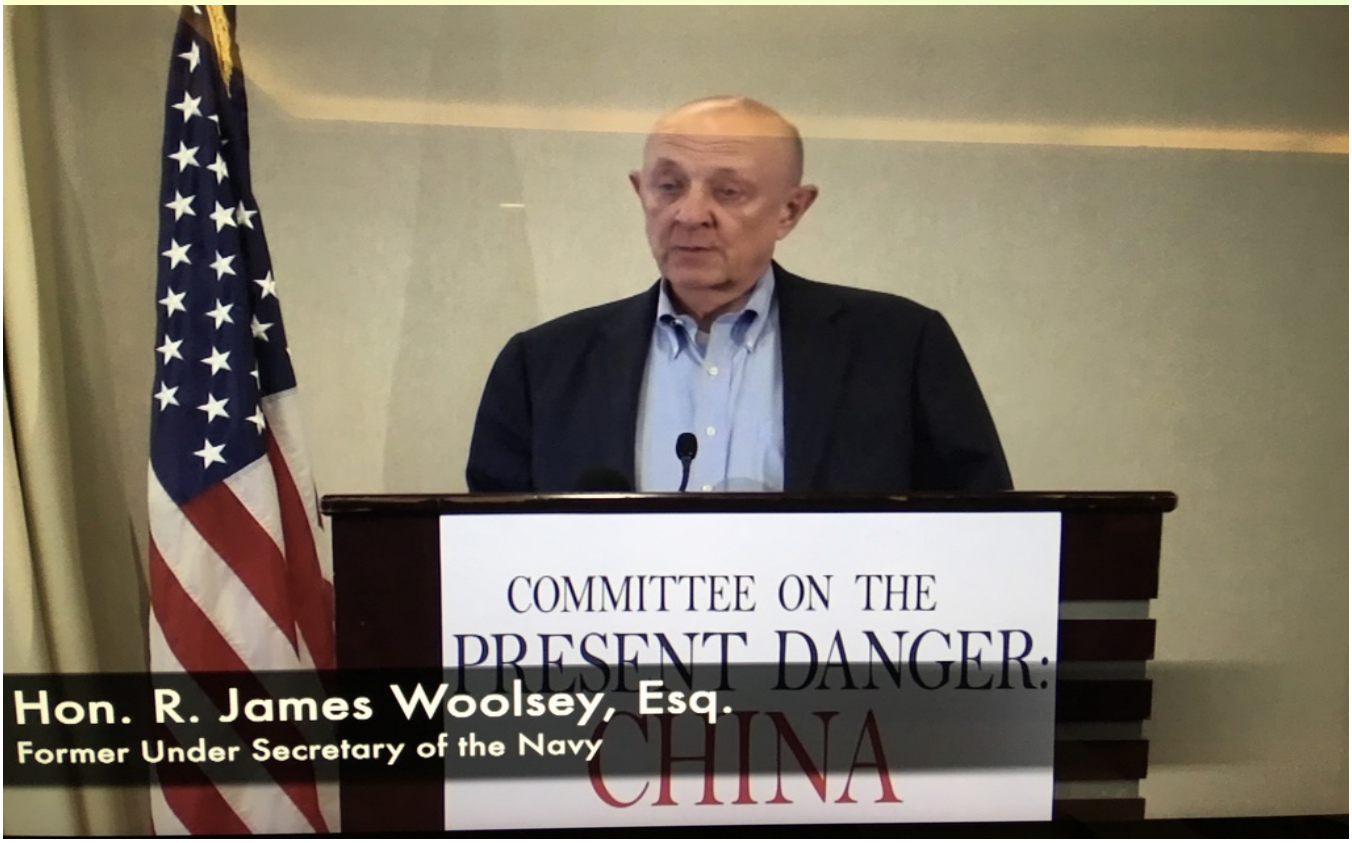


Committee on the Present Danger(CPD)

(**CPD**) is a right-wing American foreign policy interest group. Throughout its four iterations—in the 1950s, the 1970s, the 2000s, and 2019, it has tried to influence all presidential administrations since Harry Truman.

The focus of the committee is to lobby Washington to take action to counter a perceived present danger to the United States and its sphere of influence.

Fourth US Committee on the Present Danger: China (CPDC) 2019



First CPD (1950s)

On 12 December 1950, the creation of the Committee on the Present Danger to support the Truman Administration's remilitarization plans to contain "the aggressive designs of the Soviet Union"

Second CPD (1970s)

On 11 November 1976, the second iteration was announced, 'Common Sense and the Common Danger- The USSR'. CPD provided 33 officials of the Reagan administration, including Director of Central Intelligence William Casey, National Security Advisor Richard V. Allen, United States Ambassador to the United Nations Jeane Kirkpatrick, Secretary of the Navy John Lehman, Secretary of State George Shultz and Assistant Secretary of Defense Richard Perle. Reagan himself was a member in 1979.

Third CPD (2004)

In June 2004, a third incarnation of CPD was to address the War on Terrorism. Its stated goal was "to stiffen American resolve to confront the challenge presented by terrorism and the ideologies that drive it" through "education and advocacy".

Fourth CPD (2019)

Committee on the Present Danger: China 2019

The fourth CPD was established on March 25, 2019 named "Committee on the Present Danger: China." It aims to help defend America through public education and advocacy against the full array of conventional and non-conventional dangers posed by the ruling Communist Party of the People's Republic of China which represents an existential and ideological threat to the United States and to the idea of freedom.

Committee on the Present Danger: China 2019

WHO: **The Committee on the Present Danger: China**
WHAT: **Presentations on the threats posed by** the Chinese Communist Party and their mitigation
WHERE: Reserve Officers Association, Ballroom, One Constitution Ave, NE, Washington, DC 20002
WHEN: 1 to 2:30 p.m. Monday, March 25 2019
WHY: **To arouse the American people and their elected representatives to the immense challenge now faces from the Peoples Republic of China and how we must respond.**
HOW: **For media to register, contact** media@hamiltonstrategies.com
Live-stream the event at www.facebook.com/securefreedom

Committee on the Present Danger: China 2019

The Mission of the Committee

The mission of the "Committee on the Present Danger: China" is to help defend America through public education and advocacy against the full array of conventional and non-conventional dangers posed by the People's Republic of China. As with the Soviet Union in the past, Communist China represents an existential and ideological threat to the United States and to the idea of freedom—one that requires a new American consensus regarding the policies and priorities required to defeat this threat. And for this purpose, it is necessary to bring to bear the collective skills, expertise and energies of a diverse group of experts on China, national security practitioners, human rights and religious freedom activists and others who have joined forces under the umbrella of the "Committee on Present Danger: China."

Committee on the Present Danger: China 2019

Members of the Committee

Brian Kennedy	**Chairman; Former President, Claremont Institute; President of American Strategy Group**
Frank Gaffney	Vice Chairman; Executive Chairman, Center for Security Policy; President and CEO, Save the Persecuted Christians
Hon. Steve Bannon	Former Chief Strategist to President Trump; former Chairman, Breitbart News
Hon. William Bennett	Former Secretary of Education; former Drug Czar
J. Kyle Bass	Co-Founder and Chief Executive Officer, Hayman Capital Management
Paul Berkowitz	Former Professional Staff Member, House Foreign Affairs Committee
Joseph Bosco, Esq.	**Fellow at the Institute for Corea-American Studies (ICAS) and Institute for Taiwan-American Studies (ITAS); Former China Country Desk Officer in the Office of the Secretary of Defense**
Lt. Gen. William "Jerry" Boykin, USA (Ret.) **José Cardenas**	Former Deputy Under Secretary of Defense for Intelligence; former Commander, Delta Force Former Acting Assistant Administrator of US AID; former NSC, State Department official
Hon. Robert Charles	Former Assistant Secretary of State; former White House official; naval intelligence officer

Committee on the Present Danger: China 2019

China's authoritarian leaders fear that free Chinese people would oust them from power, as free people have done throughout the world.

- China poses intellectual, technological, political, diplomatic, and military challenges to the United States.
- There is support across the political spectrum for countering China's new aggressive policies. We must act now, before it's too late. The stakes are high. They could be life or death.

The China-US competition

- The costs of the trade war reflect the structural realities that underpin the relationship between the U.S. and Chinese economies.
- The two great powers should try to find a new equilibrium.
- The logic of nuclear deterrence ensured that a full-scale war between the two sides would never take place.

US-China Trade War

- **More than just on trade**
- **All out competition for No. 1 in the world**

The competition areas:

1. Trade
2. Finance, currency, monetary
3. Technology - 5G
4. Military - South China Sea
5. Geopolitics – Hong Kong, Taiwan, Tibet, Xinjiang
6. International organization rules - World bank, IMF, WTO, UN
7. Media - 7 of top 10 English media groups are from US

US-China Trade War

- **US prefers bilateral over multilateral agreements.**
- **US dominates in World Bank, IMF but not WTO.**
- **US withdrawn from TTP, Paris climate agreement.**
- **US force other countries to take side.**

US-China Trade War

China's internal threat

-Social instability in Hong Kong, Xinjiang, and Taiwan.
-GDP growth driver change from export to dual internal consumption.

US-China Trade War

US strategic goals:
-Deal with US trade deficits & China trade surplus.
-Increase import tariffs > benefit US treasury.
Assumption:
-The tariffs will result in US companies leaving China, reduce China's employment & create unemployment and social instability, weaken China's manufacturing and economic growth.
Questions?
-Will and can the US companies leave the China market?
-Can the US companies find a replacement market?
-Is De-coupling possible?
Facts:
- General Motor car sale in 2018
  US: 3 million
  China: 4 million

US-China Trade Negotiations

US's Goals

-Reduce trade deficits with China.
-Force relocation of supply chains and production out of China to weaken its long term economic power.

China's goals

-Play defense to minimize the damage to the supply chains that have been taken decades to building.
-Maintain access to the US market.
-Avoid the US to use trade war to slow its national development plan.
-Take a long term view.

Phases of the trade war:

1. March 2018
- Trump announced the 1st round of import tariffs on Chinese goods.

2. December 2018
- Trump & Xi met in G20 Summit in Argentina and agreed to conclude an agreement in 90 days.

3. May 2019
- Truce collapsed with each side accusing the other of demanding last minutes changes on the draft agreement. US imposed new round of tariffs & China retaliated.

4. October 2019
- Early harvest deal with both side managed to have some takeaways.
- China agreed to buy more agricultural products and pork,
- US suspended some tariff increases, formalized currency arrangement,
- Hope to sign a deal in Asia-Pacific Economic Cooperation) APEC in Santiago Chile 14-16 November 2019 for US to boost the Thanksgiving & Christmas shopping season.
- Negotiation was not successful in reaching an agreement.

Phases of the trade war:

5. 13 December 2019

- Both side reached a phase one deal to end the trade war.
- The agreement covering intellectual property protection, technology transfer, purchase of agricultural products by China, financial service, openness of currency exchange rate, expanding trade, assessment and conflict resolution.
- US agreed to reduce the tariffs imposed on Chinese products in stages.
- The deal can help expanding economic and trade cooperation and manage the trade disputes.

6. 15 January 2020

- The phase one agreement was signed by President Donald Trump and Vice-Premier Liu He in the White House.

Assessment of the phase one agreement

Overall assessment

1.Avoid the risk of decoupling and worsening of the trade disputes.
2.Beneficial to both sides' needs.
3.US uses less compromises to gain more commitments form China.

Impacts on China's economy and market

1.Imports from US will increase significantly.
2.Pressure on exports to US will be reduced but difficulty to have significant improvement.
3.Trade deficits on US will decrease and trade between both sides will be more balanced.
4.The RMB exchange rate will be more stable.
5.Capital investment and stock markets will recover and stable.
6.China's GDP will grow steadily and will surpass that of the US in the not so distant future.

Causes of Hong Kong's social unrest

- The gap between the rich and poor is wide. The Gini coefficient is over 0.5, whereas 0.39 for the US.
- Housing prices have tripled in a decade; the median flat price is over 20 times the median gross annual household income.
- The high housing prices and rents are unaffordable for many young professionals.
- Over 250,000 people are waiting for public housing.
- Income growth for many Hong Kong residents has fallen below the increase in cost of living.
- Income for university graduates remained stagnant over the past 20 years.
- The younger generations are very dissatisfied with their chance of upward mobility in the society.
- The civic, national and cultural education in secondary schools were not successful.

Causes of Hong Kong's social unrest

- Large number of students lack patriotism, civic responsibilities and respect for law and order.
-They don't like many things in mainland China as they have not visited and seen the rapid development in the mainland.
-Some of them seek independence from China.
-The poor relationships between local people and mainlanders.
-The lack of political leadership in the HKSAR Government.
-Carrie Lam abolished the Central Policy Unit and vacated the Information Coordinator post which are important in public policy making.
-CE had no advice on the amendment bill's political risks.
-Protesters are well funded and equipped with full gears.
-They received support from organizations from US and Taiwan.

Causes of Hong Kong's social unrest



Hong Kong's Environment

- In 1997, Hong Kong's GDP was equivalent to 18 percent of the mainland's.
- Most of China's foreign trade was conducted through Hong Kong,
- Chinese companies raised most of their capital on the Hong Kong stock exchange.
- In 2018, Hong Kong's GDP was equal to only 2.7 percent of the mainland's.
- Shenzhen has overtaken Hong Kong in terms of GDP.
- Less than 12 percent of China's exports now flow through Hong Kong.
- The combined market value of China's domestic stock exchanges in Shanghai and Shenzhen far surpasses that of the Hong Kong Stock Exchange.

Hong Kong's Environment

- Both external and internal environments in Hong Kong are unstable.
- Increasing risks on political, social, economic and legal systems.
- Widely divided political camps affect business & people's livelihood.
- Very weak government due to the lack of leadership and capable officials.
- Ineffective policy making and implementation on housing and employment opportunities.

Hong Kong's Outlook

- Violent protests will disappear as many radicals are arrested with the introduction of the National Security Law.
- Police force are strengthened by hiring of 1,000 retired officers and the 200 special police from other disciplinary departments.
- The supports from outside organizations particularly from the US have been banned.
- Many public facilities will gradually be back to normal conditions.
- The Convid-19 pandemic overtook the political and social unrest as the main reason to prevent an early economic recovery.

China's rise: an assurance of world's peaceful development, not a thread

Martin Jacques (PhD, Cambridge)
Former senior fellow,
Department of Politics and International Studies University of Cambridge

22.9.2020 China Daily
https://mp.weixin.qq.com/s/Us72o7naqCw72f5T2x8xQA



US's Attitude towards China

There were two fundamental assumptions that underpinned America's attitude towards China.

- 1. China was so far behind economically, that it was virtually impossible to imagine China becoming an economic challenger or threat to American economic ascendancy in the world.
- 2. American belief was that as China modernized, it would westernize.

US's Attitude towards China

- Americans took it for granted that if this didn't happen, China's rise would come to an end and be unsustainable.
- The economic crisis was expected by the West to happen in China – but it happened in the West.
- The political crisis was expected by the West to happen in China – but it happened in the West.

US's Attitude towards China

- The idea that America is number one is part of the American DNA.
- It's not just the presidents and the congressmen but deeply imbued in the average Americans.
- The Americans think they are best and are not going to be rivaled by anyone else.
- It would be suicide for an American president to say: "We are in decline, and we have to accommodate ourselves to a new world."
- Americans are not ready for this kind of argument.

US's Attitude towards China

- China's rise is positive but it doesn't mean that China doesn't make mistakes, hasn't made mistakes, won't make mistakes in the future. Of course it will.
- It's on a learning curve. It's only just really beginning to be a great power. But China is a very good learner.

Factors for China's rapid rise

1. A mix of socialism and capitalism with strong party leadership under party supervision.
2. The hybrid model: public-owned and market economy, is quite effective.
3. Many people are patriotic to the country. They may quarrel on internal issues, but when they face an external enemy, they are united to fight for national interest. The THAAD incident caused South Korea to lose two-fifths of its market.

Factors for China's rapid rise

4. Most high-level officials are dedicated to serve the people. They perform well in agricultural taxation reduction, poverty alleviation, and disaster relief.
5. China's leadership selection mechanism focusing on meritocracy produces good leaders.
6. China's strong government can mobilise national financial, human and material resources to do important projects without too many obstacles.

Factors for China's rapid rise

7. The new generation of young talents is becoming the pillars of the national development. In the fields of China's aerospace, nuclear energy, electronics, chips, and high-speed rail, the average age of those in charge is 40 years old, and 40% are overseas returnees.
8. China has a very complete industrial system covering all sectors.
9. China has huge financial reserves of 4 trillion U.S. dollars and has fiscal surplus. Bank deposits and other reserves are about 8 trillion yuan in total.

Factors for China's rapid rise

10. The West refers to individual excellent products as brands, while China takes new business model as a brand. The business models created by e-commerce, Alipay, Wechat pay in a short period with high value.
11. China has stable macro-control capabilities. Neither the Asian financial turmoil nor the subprime mortgage crisis created by the US had negative impacts on China's financial market.

Factors for China's rapid rise

12. China has a huge domestic market & can rely on consumption to drive the economic growth.
13. China has long term five-year & ten-year plans. The Belt and Road Initiative is for several decades.
14. Good policies & plans are passed on for generations of leaders. "Serving the people", "reform & opening up" last for many decades.
15. China's huge infrastructure investment in the past 40 years is a good comprehensive national development strategy.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE



AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Whenever people face a huge loss in life — like a sudden divorce or death of a family member — they go through five stages of grief. These stages are denial, anger, bargaining, depression, and finally acceptance. The U.S. is losing its top spot as the biggest economy and is going through the same stages.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Denial: They deny the facts and think.

- China's economy will collapse any moment now!
- China will eventually become just like the West and then we will have nothing to worry about.
- China is a totalitarian, communist country. They don't understand capitalism or free market, and thus will never be rich.
- China can never innovate. The workers are just slaves.
- China makes only crappy products and thus can never compete with western brands.
- As soon as Chinese people travel to the West and see how glorious the West is, they will go back to China and overthrow the tyrannical & corrupt communist government.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Denial: They deny the facts and think.

- China's GDP numbers and other statistics are fake!
- China's patents and scientific publications are of low quality.
- Chinese products will never succeed outside China.
- We can always nuke China and maintain our hegemony.
- COVID19 will surely bring China down. And all the countries will start decoupling from China.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Denial:

However, none of those happened. China miraculously kept advancing. Without a single recession in forty years, the engine of China kept roaring. China's communist party grew the GDP 50x in forty years, lifted 800 million people out of poverty, created the world's largest middle class, fostered innovative companies, and built a vibrant and all-around successful society.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Anger: They feel like victims and blame China.

- China stole America's jobs.
- China stole intellectual property from the U.S.
- Chinese are spies and hackers.
- China doesn't buy anything from us.
- China doesn't treat U.S. corporations fairly.
- China is too protectionist.
- China subsidizes its corporations. Not fair!
- China made the coronavirus in the Wuhan lab.
- China tricked us into a lock down.
- China bad, China bad, China bad!

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Bargaining: This is the hopeful phase. It's like saying after the divorce, "Maybe I can get my wife back." This phase is not always benign; it can involve a lot of ruthless scheming as seen in the last four years:

- If we can just force China to buy more from us, we can eliminate trade deficit and make America great again.
- Tariffs will cripple China and also force American companies to bring manufacturing jobs back.
- If we just arrest Huawei's CFO and kill the company with sanctions, China will bend its knee.
- Let's go on an all-out attack on every successful Chinese company. That should do the trick!
- Let's use Hong Kong and Uyghur separatists to disrupt China. How about using India and Taiwan to start a war?

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Bargaining:

- None of these seem to be working, although military conflicts are possible (with devastating impact on global economy).
- America's tech war will only spur more Chinese innovation and self-reliance.

AMERICA'S 5 STAGES OF GRIEF OVER CHINA'S RISE

Depression and Acceptance: The U.S. is still trying hard to stop China, rather than planning for an inevitable post-American era, which may start within five years.

- The geopolitically smart strategy will be to skip the stage of depression and go to acceptance.
- That will translate to embracing multilateralism and partnering with China, EU and Russia to forge a multi-polar world order for the 21st century.
- However, with so much Sinophobia and arrogance in the U.S., no politician or think tank will dare propose such a solution. So, get ready for American depression.

Conclusions: Global Super Powers – US & China

- US will try to maintain its no.1 position as long as possible.
- Hong Kong was used to disrupt China's development pace since US can't do anything in other Chinese cities.
- The all out competition between China and US will continue but a real war is unlikely to happen as both side has the capability of destroying one another.
- The political issues in HK need to be tackled by the Central government as the HKSARG is too weak and incapable of making effective changes.
- Business between China and US companies will continue as the two markets are too big and decoupling is too difficult to carry it out.
- The bi-polar world by the US and China will continue in the next decade.
- China's strategic goal of winning the hundred year marathon would be achieved before the mid-21th Century.