

China's secret strategy to replace America as the global superpower & The US-China trade war

Prof. Peter Fong

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#1 NATIONAL BESTSELLER

"[Pillsbury] is correct to assert that China constitutes, by far, the biggest national challenge to America's position in the world today." —THE WALL STREET JOURNAL

The Hundred-Year Marathon

CHINA'S SECRET
STRATEGY TO REPLACE
AMERICA AS THE
GLOBAL SUPERPOWER



Michael Pillsbury

WITH A NEW AFTERWORD

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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

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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 2, 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 previ-

ous presidents had done so, but because "it was a request from his friend, President Xi".

"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 no 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, the Indo-Pacific Democratic Governance Consultations.

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



White House adviser Michael Pillsbury. Photo: Wendy Wu

China's recent development history

1840 - 1949 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 & USA
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 recent development history

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, political reform would be followed by a political reform for a democratic government like the US but China didn't not follow that.
3. 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.

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China's recent development history

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.

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World's No.1 Super Power in Recent Centuries

- 19th Century: The Great Britain
- 20th Century: USA
- 21st Century: China (?)
- The US replaced UK and became the No.1 super power in the early 20th century. It has been challenged by Germany, USSR, and Japan along the way but managed to fend off these challenges.
- Can US do the same and remain No.1 against China?
- UK has no big problem of being replaced by the US as they share similar culture, language, and ethnicity.

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How the US became the 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. Also 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.

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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.

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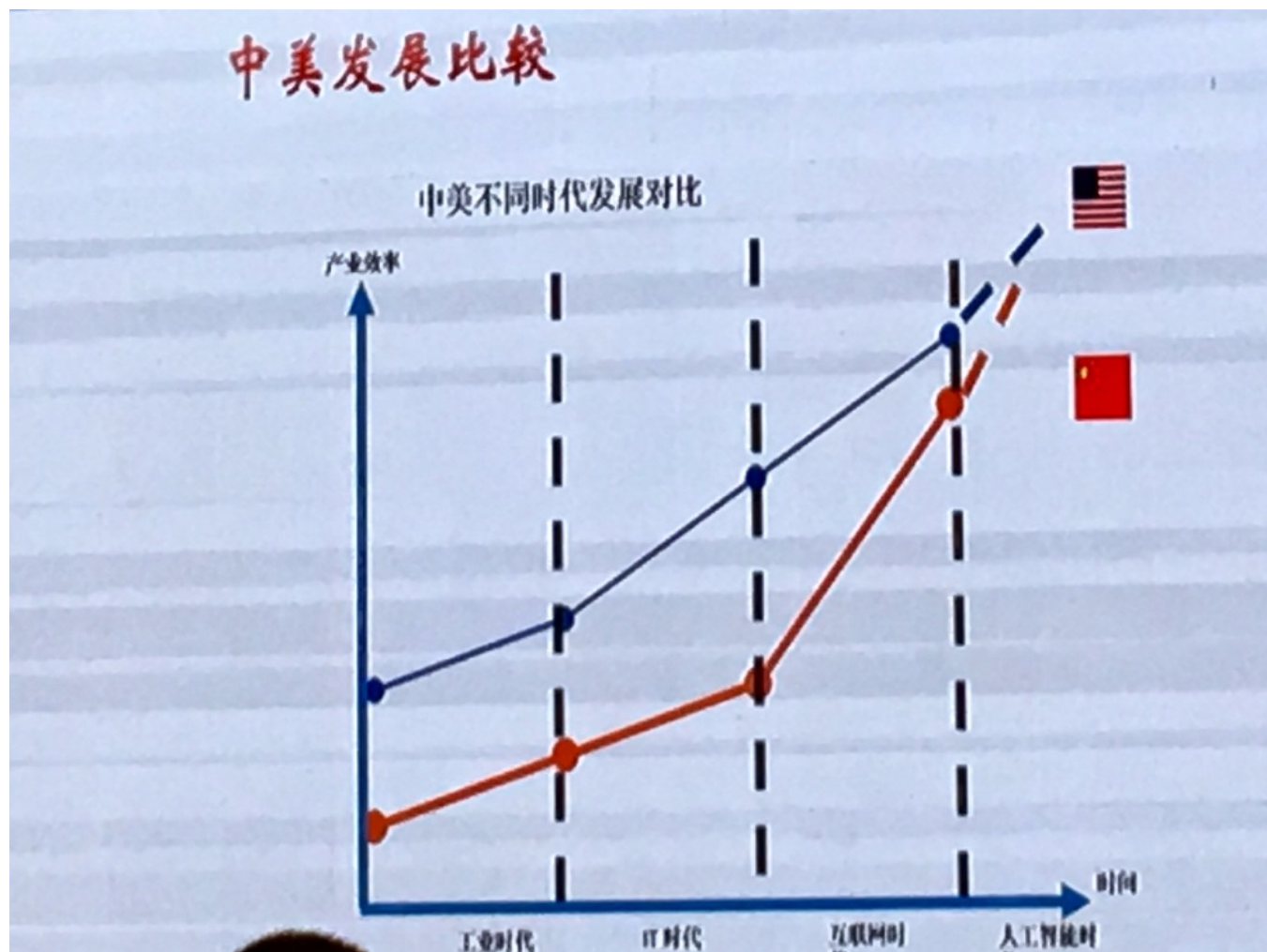
China's Strategy to Regain its Position in the World

- 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 does not privatized its SOEs.
- 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.

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香港中華廠商聯合會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教授（左三），香港中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。



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

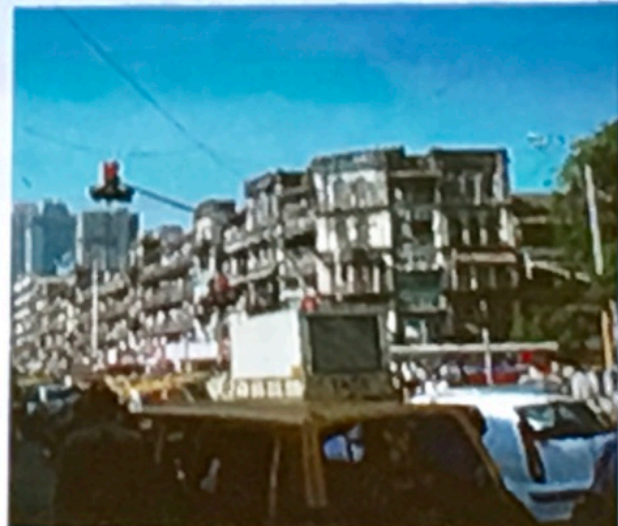
解构西方话语、建构中国话语：

（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：
 - 一人是理性的
 - 一权利是绝对的
 - 一程序是万能的

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

- 1、社会秩序
- 2、和谐
- 3、政府问责制
- 4、接受新思想
- 5、言论自由
- 6、尊重权威

美国

言论自由
个人权利
个人自由
公开辩论
生存
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

Figure 1: 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

Figure 18: The Global Economy by GDP

Source: World Economic Forum

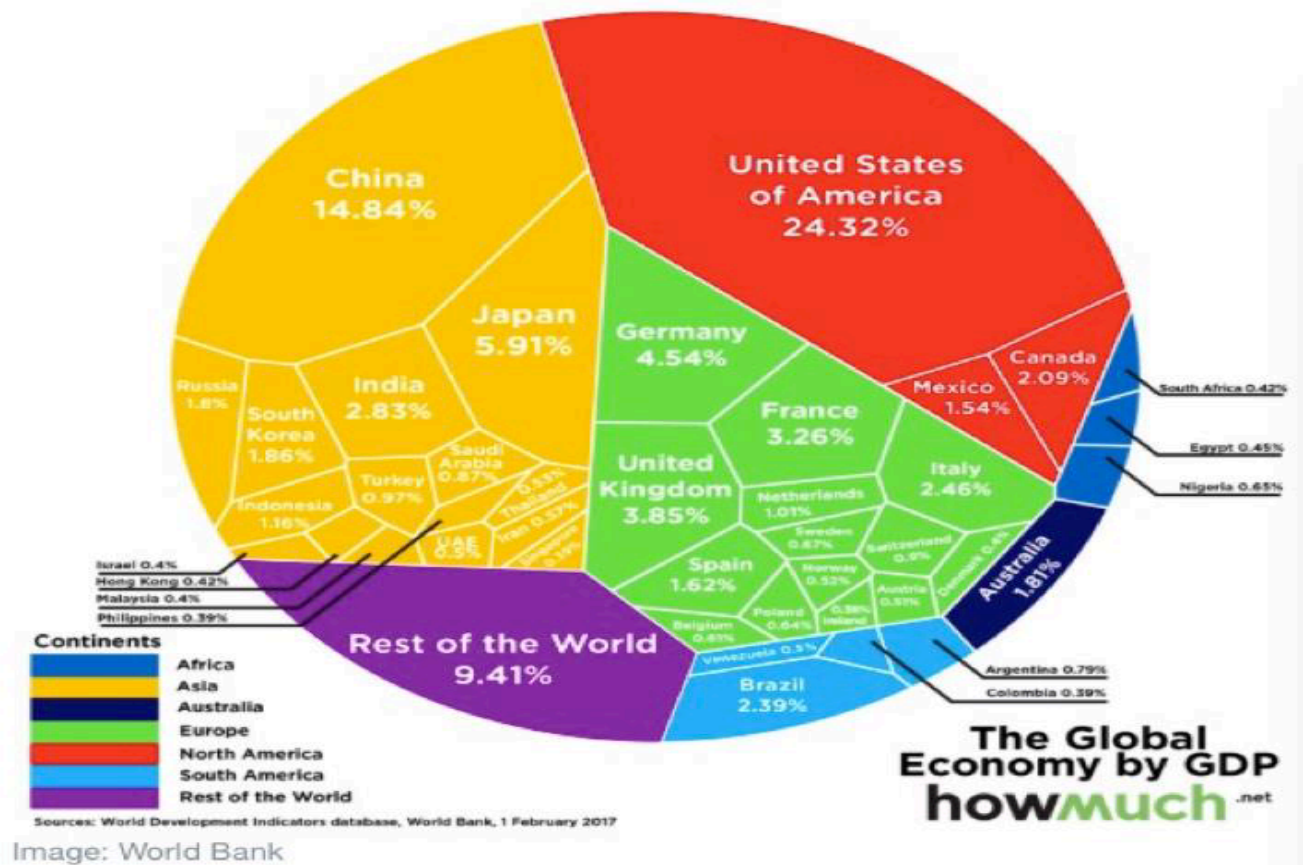


Fig 1. US business interests in China

Source: Morgan Stanley, 2018

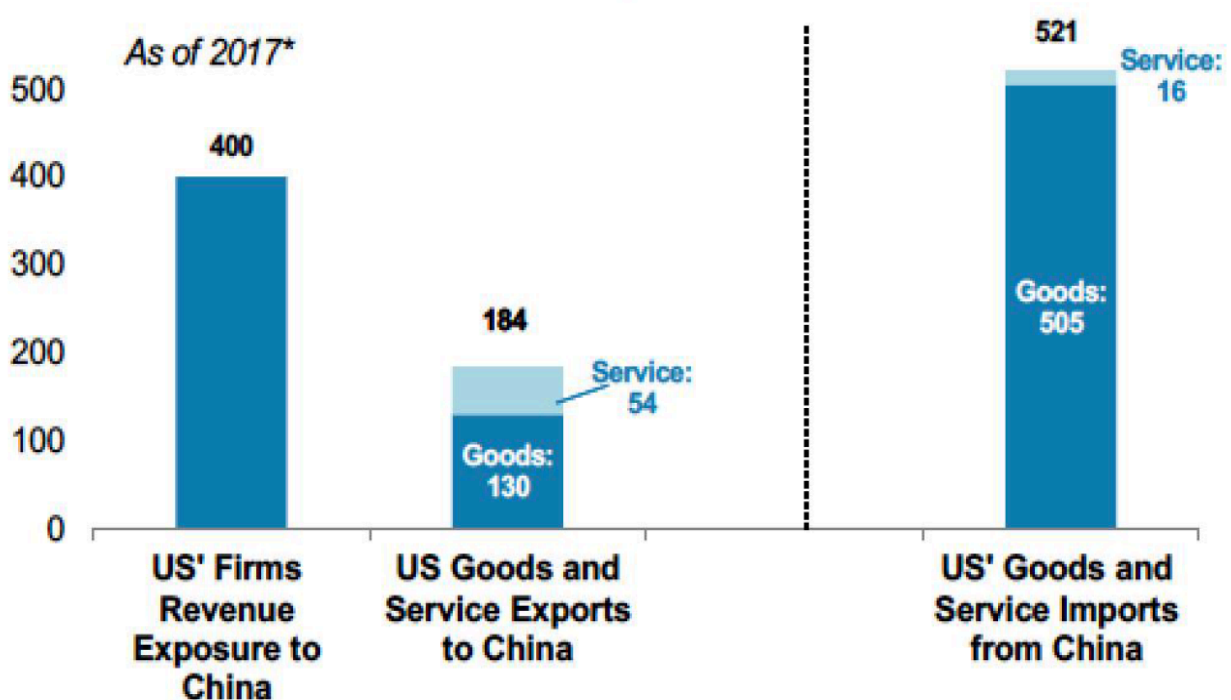
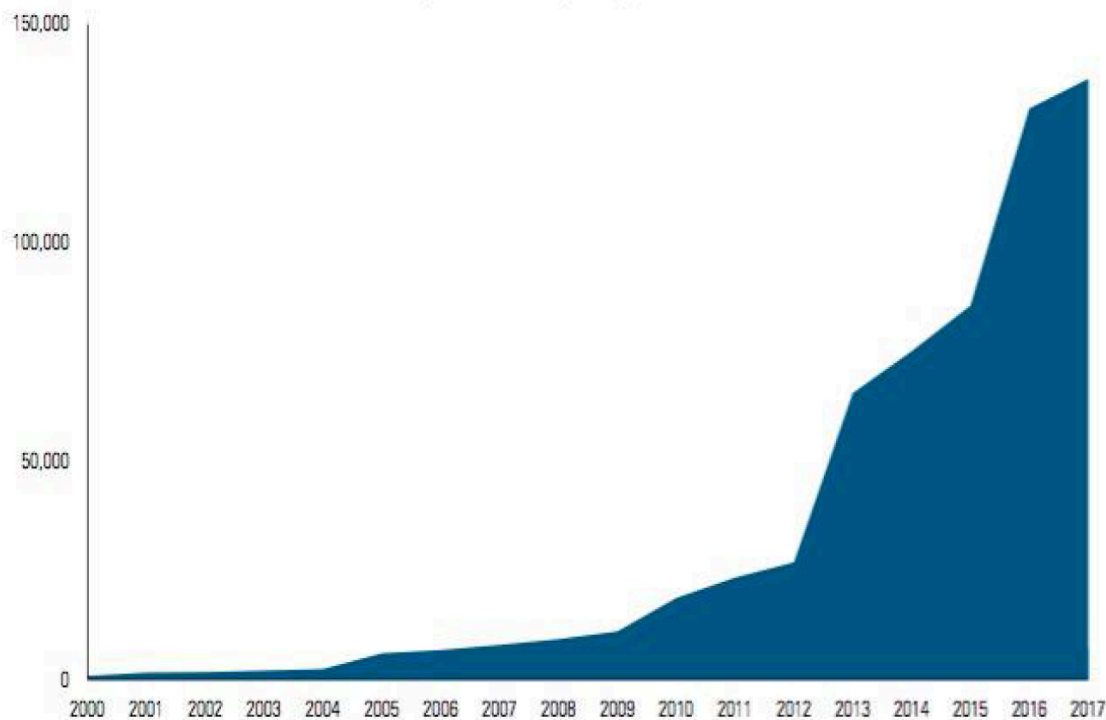


Figure 2. Employment at Chinese-owned Companies in the US

Source: Rhodium Group

Employment at Chinese-owned Companies in the US

Number of full-time direct US jobs at majority Chinese-owned firms



The Rise of China

China's GDP

- **Growth 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.**

West thinks differently:

- **Over-power with authority, buy people with money.**
- **Still weak in human rights, lack freedom & rule of law.**

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**

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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)**

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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

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The cause & effect of the US-China trade war

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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.
- **Facing Challenge from China**
- Slowdown China's rising speed,
- Target China's top technology companies, like Huawei.
- Team up with its allies to put pressure on China
- Engage China in a trade war
- Engage China in a cold war

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US-China Trade War

- **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 system.
- 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. They will maintain a working relationship.

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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 - Taiwan, Tibet, Xinjiang**
6. **International organization rules - World bank, IMF, WTO, UN**
7. **Media - 7 of top 10 English media groups are from US**

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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.**

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US-China Trade War

China's internal threat

- **Social instability in Xijiang, Tebet, Taiwan, and Hong Kong.**
- **GDP growth driver change from export to consumption.**

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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.**

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US-China Trade War

US strategic goals:

- Dealing 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

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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.

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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.

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The China-US competition

- Washington is not winning this trade war.
- China's economic growth has slowed,
- The tariffs have hit U.S. consumers harder Chinese counterparts.
- With fears of a recession, Trump's approach is imperiling the U.S. economy,
- Posing a threat to the international trading system, and failing to reduce trade deficit.
- The damage to the economy on the import side is more pronounced for US than China.

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The China-US competition

- U.S.-Chinese competition will continue beyond Trump's tenure.
- 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, fitful equilibrium in the years ahead.

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The China-US competition

- The trade war has not produced the desired results for the United States.
- Chinese exports to the United States increased by \$34 billion, or seven percent, year-over-year, while U.S. exports to China decreased by \$10 billion, or eight percent since the trade war began.
- The tariffs have coincided with a widening of the U.S. trade deficit with China: by 12 percent in 2018 (to \$420 billion).

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The China-US competition

- The why Chinese exports to the United States have not fallen is that there are no good substitutes for the products the US imports from China, such as iPhones, so U.S. buyers are forced to absorb the tariffs in form of higher prices.
- Some export-oriented manufacturing is leaving China, but not for the United States.
- According to a survey conducted American Chamber of Commerce in Shanghai, fewer than six percent of U.S. businesses in China plan to return home. Sixty percent of U.S. companies said they would stay in China.

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The China-US competition

- Chinese consumers aren't paying higher prices for U.S. imports.
- A study by the Peterson Institute for International Economics shows that since the beginning of 2018, China has raised the average tariff rate on U.S. imports from 8.0 percent to 21.8 percent and has lowered the average tariff rate on all its other trading partners from 8.0 percent to 6.7 percent.
- China imposed tariffs only on U.S. commodities that can be replaced with imports from other countries at similar prices.
- It actually lowered duties for those U.S. products that can't be bought elsewhere more cheaply, such as semiconductors and pharmaceuticals.
- Consequently, China's import prices for the same products dropped overall, in spite of higher tariffs on U.S. imports.

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The China-US competition

- China imposed a 25 percent tariff on U.S. lobsters in July 2018, precipitating a 70 percent drop in U.S. lobster exports.
- At the same time, Beijing cut tariffs on Canadian lobsters by three percent,
- Canadian lobster exports to China doubled.
- Chinese consumers now pay less for lobsters imported from essentially the same waters.

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The China-US competition

- China's economy shifts to a consumption-driven model.
- Exports to the United States as a proportion of China's GDP declined from a peak of 11 percent in 2005 to 4 percent by 2018.
- In 2006, total exports made up 36 percent of China's GDP.
- In 2018, that figure was cut to 18 percent, lower than the average of 29 percent for the industrialized countries of OECD.
- China steers the economy from export-driven manufacturing to a consumer-driven model.

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The China-US competition

- China and US are joined economically, each being the other's biggest trading partner.
- Decouple the two economies will bring catastrophic consequences for both.
- Consumer prices will rise, world economic growth will slow, supply chains will be disrupted and laboriously duplicated on a global scale,
- Digital divide—in technology, the Internet, and telecommunications—will vastly hamper innovation by technology firms.

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The China-US competition

- Trump's trade war does not simply seek to reduce the trade deficit.
- He uses tariffs as a means to slow China's economic rise and check the growing power of a geopolitical competitor.
- He thinks China's system of government involvement in economic activities represents threat to the US.
- Robert Lighthizer, U.S. trade representative, has insisted that the purpose of tariffs is to spur China to overhaul its way of doing business.

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The China-US competition

- U.S. consider “China model” of economic development a threat to liberal market systems is wrong.
- China has achieved rapid growth in the past 40 years by moving away from the old state control economy and embracing the market.
- The market plays a dominant role, the private sector accounts for more than two-thirds of the economy.
- The government-controlled sector remains too big, inefficient, & wasteful and a source of friction between China and the West,
- Chinese government subsidies and supports are an unfair advantage for state-owned firms. It needs to change for China and for its trading partners.

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The China-US competition

- China & US should move away from zero-sum thinking and end to the decoupling.
- The best path forward is to tear down existing barriers and further open up trade.
- To maintain global primacy and technological leadership, the US needs China—biggest & fastest-growing consumer market.
- To sustain the momentum of economic ascent, China needs to further its reforms and continue opening up.
- Mix of cooperation and competition within a rules-based system will lead to the greatest prosperity for both countries.

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Understanding the US-China Trade War: Analyses and CCG Recommendations

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CCG's recommendations for both China and US

1. Build on the agreements already reached through bilateral negotiations and work to increase Sino-US bilateral trade and opportunities in services trade.
2. Forge a new bilateral agreement on intellectual property rights (IPR).
3. Increase opportunities for US companies in China Manufacturing 2025.
4. Seek further tariff reduction through bilateral negotiations and re-engage in talks.
5. Build on the foundation of domestic reforms to rebalance the Chinese and US economies as ways to achieve trade balance.
6. Update the way that Sino-US trade is measured to more accurately reflect the value derived by each side.
7. Expand cooperation in infrastructure and explore creating a Sino-US infrastructure investment fund.
8. China and the US can work together to reform the WTO.
9. Strengthen Sino-US cooperation between provinces and states.
10. Develop the role of diplomacy and promote bilateral dialogue.

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Conclusions

- US will try to maintain its no.1 position.
- Hong Kong will be used as chess to disrupt China development route as US can't do anything in other Chinese cities.
- The trade war and cold wars will continue but a real war won't 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 to give up.

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Conclusions

- 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.

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