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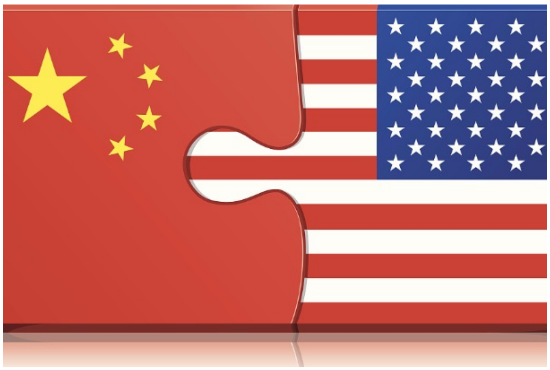
Prospects for China-US Trade: Seeking a rational resolution via the "Argentina Consensus"



Executive Summary

The current China-US trade dispute has proved to be intense and long-lasting, with broad impacts. Since the Trump administration announced Section 301 measures on March 23, 2018, the ongoing China-US trade conflict has escalated after several twists and turns. During the G20 summit held in Argentina from November 30 to December 1, 2018, President Xi Jinping and President Trump reached a consensus to refrain from imposing new tariffs. However, after the tenth round of negotiations, the China-US trade talks again took a twist for the unexpected. After imposing a 25% tariff on US $200 billion worth of imports from China on May 10, the Trump administration prepared yet another round of tariffs on more than US$300 billion worth of imports from China. The ensuing eleventh round of China-US trade negotiations failed to reach any outcomes. Both China and the US issued official statements articulating demands and positions, to the dismay of stakeholders in the bilateral relationship.

In a telephone call on June 18, President Xi and President Trump agreed to meet during the upcoming Osaka G20 Leader's Summit and exchange views on fundamental issues concerning the development of China-US relations. Attention now turns to what the next steps will be in China-US trade talks and whether the two heads of state will reach an agreement at the G20 summit.

This report builds on CCG report entitled "China-US Trade Relations: Past, Present, Future and Policy Options" which was released in Washington D.C. in September 2018. Drawing on analysis as well as first-hand interviews and seminar discussions gleaned during CCG's recent "track-two" US trips, this report focuses on: the current gap in trade deficit accounting, negative impacts of the trade war, voices calling for a resolution, and China's efforts to improve the foreign investment environment, to call for both sides to seize the opportunity of the Osaka Summit to revive the consensus reached in Argentina. Supporting a rational course of negotiations, the report also proposes ten recommendations to improve China-US trade talks and relations:

1. Advance dialogue and communication about China-US trade talks, calling for a return to the "Argentine Consensus" at the upcoming US-China summit at the G20.
2. Improve accounting methods for China-US trade to more accurately and fairly reflect the value gained by both countries, including trade in services, tourism, and study abroad.
3. Increase purchases of US imports while the US ease the export control and lift the ban on Huawei to jointly mitigate the impact of China-US trade frictions.
4. Improve implementation details for China's Foreign Investment Law, boost actions to attract foreign investment, and address US concerns about Chinese legal issues.
5. Continue to uphold the multilateral trade system, use multilateral cooperation to promote WTO reform, and evaluate the opportunity for China to join the CPTPP.
6. Conduct an in-depth study of "zero tariffs, zero barriers, zero subsidies" to explore how to use a high-level of openness to promote economic globalization.
7. Strengthen further ties between Chinese and US businesses to prevent decoupling.
8. Strengthen measures to protect IP and increase efforts to crack down on IP infringement.
9. Enhance the role of "sub-national diplomacy" by actively strengthening cooperation with US state and municipal governments.
10. Strengthen China-US people-to-people relations and enhance non-governmental diplomacy.

Contents

The current China-US trade dispute has proved to be intense and long-lasting, with broad impacts. There were already frictions before the Trump administration announced Section 301 measures on March 23, 2018. From August 2018, based on the results of the 301 investigation, the US began to impose tariffs on Chinese exports to the US on a large scale. This marked the official start of the ongoing China-US trade dispute, which has since escalated after several twists and turns.

During the G20 summit held in Argentina from November 30 to December 1, 2018, President Xi Jinping and President Trump reached a consensus to refrain from imposing new tariffs. Subsequently, in the sixth and seventh rounds of China-US trade negotiations, the two sides made substantive progress on a range of issues including technology transfer, intellectual property protection, non-tariff barriers, service industries, agriculture, and exchange rates. Analysts and observers from both sides saw that China and the US would soon reach an agreement and return to normal economic relations.

However, after the tenth round of trade negotiations, the China-US trade dispute again took a twist for the unexpected. After imposing a 25% tariff on US $200 billion worth of imports from China on May 10, the Trump administration prepared yet another round of tariffs on more than US$300 billion worth of imports from China. The ensuing eleventh round of China-US trade negotiations failed to reach any outcomes. The Chinese side had hoped to cancel the added tariffs, push for a reasonable amount of import procurement, and achieve bilingual balance in the negotiation text.

On the US side, two concerns were raised: the rapid development of China's high-tech sector, especially 5G technology, and doubts about China's ability to implement the agreements. The Trump administration subsequently issued an executive order banning US companies from supplying Huawei. At each stage, while maintaining a clear position, China has matched the US step-for-step with countermeasures. In the whitepaper *China's Position on the China-US Economic and Trade Consultations* issued by the State Council, the US was criticized for going back on its word during the negotiations and making excessive demands on many issues.

With trade negotiations deadlocked again, a pessimistic mood now prevails across the Pacific. A recent analysis by investment bank Goldman Sachs maps out three potential scenarios. In scenario one, considered the most likely at this point, no deal is reached and the White House moves forward with additional tariffs sometime in July, though with 10% tariffs applied instead of 25% to soften the blow to US consumers as some imports from China cannot easily be substituted from elsewhere. Scenario two, considered only slightly less likely than the first, is that negotiators fail to reach a deal before or at the G20 but agree to postpone the implementation of additional tariffs and halt any further retaliatory measures while negotiations resume. The best-case scenario, and also the one considered least likely given how far apart the two sides remain at present, is that a deal is reached in the near future, avoiding any new tariffs and likely eliminating at least some existing tariffs.[1]

In a telephone call on June 18, President Xi and President Trump agreed to meet during the upcoming Osaka G20 Leader's Summit and exchange views on fundamental issues concerning the development of China-US relations. Attention now turns to what the next steps will be in China-US trade talks and whether the two heads of state will reach an agreement at the G20 summit. Interviewed by Goldman Sachs, CCG president Wang Huiyao remains "cautious optimistic" about the prospects for the two countries to reach a trade deal, calling for the US side to respect the three "red lines" that China has articulated.[2]

Kevin Rudd, chairman of the Asia Society Policy Institute (ASPI) and former Australian Prime Minister, may also share this line of optimism. Rudd expressed his view during his recent visit to CCG headquarters for a roundtable, believing that structural factors on both sides will bring China and the US to reach a trade agreement. President Trump is more concerned about the second of the three points raised by China in the previous round of the negotiations, which relates to the amount of goods China purchases from the US. This is due to President Trump's desire to win over voters in the upcoming 2020 election by hailing the volume of China's imports from the US exports as an achievement. China, on the other hand, needs to ease downwards economic pressure. This calculus indicates that, in future China-US trade talks, there is space for China to negotiate further on purchases of US goods to achieve a breakthrough. [3]

Summit diplomacy at the Osaka G20 meeting could provide the opening for a much-needed resolution to the China-US trade dispute. On the one hand, President Trump has said that the next US presidential election will provide an important opportunity for China and the US to reach a new trade agreement. On the other hand, President Xi Jinping's state visit to North Korea has increased China's leverage in the negotiations. In this context, based on ongoing research of China-US economic relations, CCG believes it is highly possible that the meeting between the two leaders at the G20 will result in a short-term bilateral trade agreement. Yet, while any such agreement would undoubtedly be held up as a proud achievement by President Trump in his upcoming re-election campaign, China should nonetheless undertake long-term strategic cautions for a prolonged period of tensions in the bilateral relationship.

This report builds on CCG report entitled "China-US Trade Relations: Past, Present, Future and Policy Options" which was released in Washington D.C. in September 2018. Drawing on analysis as

1 "Trade Wars 3.0" *Goldman Sachs Research*, June 2019

2 "Trade Wars 3.0" *Goldman Sachs Research*, June 2019

3 For Kevin Rudd's points see《陆克文：系好安全带，中国人不会退让》，环球网，2019 年 6 月 14 日 http://oversea.huanqiu.com/article/2019-06/14994928.html?agt=15435

well as first-hand interviews and seminar discussions gleaned during CCG's recent "track-two" US trips aimed to engage stakeholders from across US think tank and business circles, this report focuses on: the current gap in trade deficit accounting, negative impacts of the trade war, voices calling for a resolution, and China's efforts to improve the foreign investment environment, to call for both sides to seize the opportunity of the Osaka Summit to revive the consensus reached in Argentina. Supporting a rational course of negotiations, the report also proposes ten recommendations to improve China-US trade talks and relations.

I. Acknowledging divergent measurements of the US trade deficit with China

Current methods used to measure trade result in a major overvaluation of US-China trade deficit. The difference in methods used by China and the US also result in considerably different valuations of bilateral trade. In "Research Report on US Gains from the China-US Trade and Economic Cooperation" issued by China's Ministry of Commerce in June 2019, according to Chinese data, China's 2018 trade surplus with the US was $ 323.33 billion, while China's deficit to the US in trade in services was $ 48.05 billion. According to the US data, however, the US trade deficit with China in 2018 amounts to $ 419.16 billion, while trade in services (cross-border trade) was $ 40.53 billion.

A joint study by China's Ministry of Commerce and the US found that US trade data on Chinese goods have been overvalued for a long time. According to calculations, in 2018, the US trade deficit with China was overestimated by $88 billion, meaning the figure should have been $ 331.2 billion. Furthermore, if the appropriate value of processing trade ($90.3 billion) is subtracted from the total, the US-China trade deficit comes out at $240.9 billion. In addition, according to various models for trade in services, the overall US trade deficit to China in 2018 should be reduced to approximately $153.6 billion, which is 37% lower than the trade deficit currently reported by the US.

The main difference in calculation methods between China and the US is due to different ways of calculating intermediary trade, processing trade and service trade. Regarding intermediary trade and processing trade, Chinese statistics show that imports from the US in 2018 were $155.1 billion, over $30 billion more than the figure declared by the US. Taken together, differences in offshore and onshore prices, as well as differences in definitions of intermediary trade, can explain around a $100 billion gap between Chinese and US data. [4]

In addition, current trade figures overlook the economic significance of study and tourism. Each year, a huge number of Chinese students go to study in the US, around 360,000 in 2018.[5] This

[4] 《中美贸易战：贸易逆差数字分歧巨大，谁说的是真的》， BBC 中文网，2019 年 6 月 11 日

[5] International student data from the 2018 Open Doors Report, Institute of International Education,

brings around $20 billion to the US economy each year.[6] Chinese tourists also bring around $30 billion of expenditure to the US annually.[7] However, these items, amounting to $50 billion, are not counted in calculations of the US trade deficit with China. If tourism and study abroad are included, then the actual US-China trade deficit works out to around only $100 billion.

Furthermore, as pointed out in the Ministry of Commerce report’s analysis of the structure of China-US trade, while China has a trade surplus with the US in paper, the gains from this surplus are in fact shared between both countries. More than half of China's trade surplus with the US comes from processing trade, from which China earns only a small amount for processing, while the US gains considerable profits for design, supplying parts, and marketing.

Because traditional ways of calculating trade count the entire value as coming from the nation exporting the end-product, trade statistics do not present a balanced picture of how actual the actual gains of China-US trade are allocated. According to data from China’s Ministry of Commerce, in 2017, sales revenue of US firms in China came to around $700 billion, far exceeding the value of the trade deficit.[8] According to a March 2018 study by Deutsche Bank, once commercial profits made by US firms generated from China-US trade are taken into account, China’s huge “on-the-books” surplus may actually be quite small.

For example, in 2017, GM sold 4 million vehicles in China, exceeding its US sales of 3.6 million vehicles. As of 2016, users of Apple’s iPhone in China reached 310 million, more than twice the figure in the US. However, such products are not reflected in trade data of either country because they are produced and sold by subsidiaries of US companies in China. Once the concept of “value added” and total sales factors are taken into account, the China-US trade deficit works out to only around $30 billion.[9]

Trade with China benefits the US in many ways. According to the 2019 State Expert report, published by the US-China Business Council, in the 10 years from 2009 to 2018, US exports to China

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https://www.iie.org/Research-and-Insights/Open-Doors/Data/International-Students/Places-of-Origin

6 NAFSA International Student Economic Value Tool, NAFSA, http://www.nafsa.org/Policy_and_Advocacy/Policy_Resources/Policy_Trends_and_Data/NAFSA_International_Student_Economic_Value_Tool/#stateData

7 “China: International Inbound Travel Market Profile (2017)”, March 05, 2019, U.S. Travel Association, https://www.ustravel.org/system/files/media_root/document/Research_Country-Profile_China.pdf

8 http://images.mofcom.gov.cn/www/201906/20190606142720196.pdf

9《失衡的秘密：揭开贸易“逆差”之谜 》，南方周末

supported over 1.1 million US jobs. [10] Imports from China have also helped keep US inflation down. Oxford Economics estimates that cheap "Made in China" goods helped to reduce US consumer price levels by 1% to 1.5% in 2015. Furthermore, China's various investments in the US, including US Treasury bonds, and returns of US financial institutions invested in Chinese financial institutions, show that by the end of 2017, the total amount of US capital inflows from China reached 1.37 trillion US dollars. [11] The points outlined above show that the US trade deficit with China has been consistently overstated. Analytical models based on outdated ideas of trade and traditional customs measurements risks misrepresenting the realities of modern international trade and national interest and inflaming domestic anxieties about US-China trade deficit in the US.

II. Potential harm of China-US decoupling stirs opposition to trade war

II.I Trade war hurts US economic interests and people's livelihoods

Trade frictions harm the interests of ordinary American consumers. As a large part of China's exports to the US are ordinary consumer goods, their price elasticity is relatively low. Given the phenomenon of tax shift, in this case, if the US imposes tariffs on these Chinese exports, most of the tax burden will be passed on to US consumers. Investment bank Goldman Sachs has said that the cost of tariffs imposed by the US last year has fallen "entirely" on US firms and households, with a greater impact than previously expected. This is partly because Chinese exporters have not lowered their prices to be more competitive in the US market. The result is upwards pressure on consumer prices and the US core inflation rate. [12]

Nor are the current economic frictions beneficial to US employment. Tariff increases lead to an increase in US labor costs, restricting enterprises' demand for labor and hence employment growth. In addition, US firms have to bear higher raw material costs and, in some areas, face reduced efficiency in resource allocation due to resources shifting into taxable areas. A recent research notes by UBS estimates that higher tariffs on Chinese goods could force 12,000 stores to close within a year while adding substantially to US retailers' costs. [13]

China's Position on the China-US Economic and Trade Consultations published by the State

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10 "The 2019 State Expert report", *the US-China Business Council*, May 1, 2019.

11 《失衡的秘密：揭开贸易"逆差"之谜 》， 南方周末

12 Emma Newburger, "The cost of Trump's tariffs has fallen 'entirely' on US businesses and households: Goldman", , *CNBC* , May 12 2019

13 "China tariffs could trigger one of the biggest waves of store closures the US has ever seen, sparking the second coming of the retail apocalypse'', *Business Insider*, May 14, 2019

Council Information Office in June 2019 elaborates the case for why the trade war has not helped "make America great again." Rather than promote US growth, tariffs have harmed the US economy by significantly increasing production costs for US companies, raising US domestic prices, reducing US exports to China, and adversely affecting US economic growth and people's livelihoods.

The Chinese market is vital to the US economy. During the decade from 2009 to 2018, US exports to China supported more than 1.1 million US jobs. During this decade, 48 US states saw growth of exports to China, with 44 enjoying double-digit growth. However, in 2018, as China-US trade frictions intensified, only 16 US states saw exports to China grow. 34 states saw exports to China decline, 24 of these by double digit margins. Midwestern agricultural states suffered the most damage.

Multiple reports released by US groups this year underscore the harm the trade dispute causes the US economy. According to estimates released by US industry group Tariffs Hurt the Heartland on May 24, 2019, based on the $25 billion total amount of tariffs paid so far, every second the trade war drags on costs Americans $810. [14] A report released by the US think tank "Trade Partnership" in February 2019 estimates that imposing a 25% tariff on all Chinese exports to the US will decrease US GDP by 1.01%, reduce employment by 2,160,000, and increase costs for an average family of four by $2,294 per year. [15]

A joint report released by the American Chamber of Commerce (AmCham) and Rhodium Group in March 2019 estimates during 2019 and the coming four years, US-China trade frictions will reduce US GDP by $64 billion to 91 billion annually, equivalent to 0.3 – 0.5% of US GDP. If the United States imposes a 25% tariff on all Chinese exports to the US, it is estimated that US GDP will suffer a loss of $1 trillion over the next 10 years.[16]

Tariff increases are also hurting American business in China. A joint survey released by AmCham China and AmCham Shanghai on May 22 clearly shows that the far-reaching negative impact of tariffs is hurting the competitiveness of US firms in China. Three quarters of respondents said that tariff increases had negatively impacted their business. Among these, the proportion of manufacturing firms affected by US tariffs was highest, reaching 81.5%. The survey found that tariff impacts were felt through reduced product demand (52.1%), increased manufacturing costs

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14 Tanzeel Akhtar Benzinga, "Tariffs Hurt the Heartland: What You Should Know," June 15, 2019, https://finance.yahoo.com/news/tariffs-hurt-heartland-know-192241137.html

15 Cited in *China's Position on the China-US Economic and Trade Consultations,* PRC State Council Information Office, June 9, 2019

16 "Trade war tariffs hurting US Business in China", May 22, 2019, https://www.axios.com/trade-war-tariffs-hurting-us-business-in-china-43a8bf67-b838-49c7-b91e-e0a5f03ab37d.html

(42.4%), and higher sales prices for products (38.2%). [17]

As the trade dispute continues, the US economy is showing signs of weakening. While US GDP growth reached 3.2% 2019 Q1, the key pillars of personal consumption and private fixed asset investment contributed only 1.09 percentage points, down from 2.20 percentage points in 2018 Q4. April brought further warning signs, with retail sales down 0.2% and industrial production down 0.5%. That month, the industrial production index (IPI), which reflects output of US industrial products, was also negative after seasonal adjustment, whether looking at manufacturing or the entire industrial sector, down 1.3% and 1.6% respectively compared to the end of 2018. The first four months of the year also saw a fall in the capacity utilization rate, which reflects industry outlook, for both industry and manufacturing, down to 77.9% and 75.7% respectively, compared to the average rates of 79.8% and 78.3% between 1972 and 2018. From these data, it is quite evident that protectionism is far from promoting a boom in US manufacturing.[18]

Long-term impacts of the trade dispute could be particularly serious in hi-tech sectors. President Trump's Huawei ban has caused tremendous damage to the global supply chain for semiconductor R&D, manufacturing and application. In 2018, Huawei had 13,000 suppliers worldwide and purchased $70 billion of equipment and services, $11 billion of which came from US suppliers such as Qualcomm. Leading US chipmakers also have their own global supply chains. The ban has forced Huawei turn to a Plan B of using its own chips and systems, disrupting international supply chains and harming US high-tech industries.

The Chinese market accounts for a large proportion of the global sales of the top ten US chip makers, including Skyworks Solutions (80%), Qualcomm (63%), Qorvo (60%), Broadcom (52%), Micron Technology (50%) and Intel (23%). If US chip makers lose the huge revenues from sales to the Chinese market, they will struggle to maintain the high-level of investment in R&D necessary to maintain their leading positions in the global market. This is part of the reason why US technology stocks plummeted after the Huawei ban was announced.[19]

II.II US voices calling for a truce cannot be ignored

Reflecting the harm done by the trade war, the chorus of US voices calling it to end is growing. The US Chamber of Commerce, Washington's most powerful business group, is urging the Trump administration to end its trade war against China, saying that proposed tariffs could

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17 Ibid.

18《认清本质洞明大势斗争到底中美经贸摩擦需要澄清的若干问题》，求是，2019 年第 12 期

19 He Weiwen, "Why is Trump's counter-measure against China's extreme pressure?" *China-US Focus*

cost the US economy $1 trillion over the next decade. [20] On May 20, more than 170 US shoe retailers, including Nike, issued a joint letter asking President Donald Trump to remove footwear from the list of goods for additional tariffs, saying these tariffs would harm US consumers and U.S. economy. The companies agreed that the burden of tariffs that US government intends to impose would eventually fall on US consumers, with working Americans the most affected. The joint letter also pointed out that "while U.S. tariffs on all consumer goods average just 1.9 percent, they average 11.3 percent for footwear and reach rates as high as 67.5 percent. Adding a 25 percent tax increase on top of these tariffs would mean some working American families could pay a nearly 100 percent duty on their shoes." The joint letter also pointed various negative impacts of tariffs, not only harming consumers, but also threatening the survival of industries and companies. The letter added, "it is time to bring this trade war to an end." [21]

Bloomberg News reported that on June 13, more than 600 US companies including Wal-Mart, Costco, Target, Gap, Levi Strauss, and Foot Locker, jointly signed a letter calling on President Trump to halt the trade war and resolve the trade dispute as soon as possible. [22] The letter emphasized that tariffs harm US businesses and consumers and will increase consumer prices. The letter goes on to warn that imposing a 25% tariff on $300 billion of imported products will cause the US to lose another 2 million jobs, increase $2,000 to the annual living costs of a US family of four, and trim US GDP by 1 percentage point. [23]

There is a real risk that the use of restrictive measures in the technology will escalate out of control, striking a blow to both consumers and US chip companies. This message is echoed in Apple's recent open letter, which urges the White House to abandon tariffs of up to 25% on parts used in its products, warning that new tariffs will add hundreds of dollars to Apple product costs, causing significant harm to consumers and weakening Apple's contribution to the US economy. [24] In an interview with CNBC, the CEO of the US Consumer Technology Association said that tariffs are "not a good strategy" to resolve the trade dispute as they hurt US consumers and companies. [25] According to Reuters, Huawei's American suppliers, including Qualcomm and Intel, are quietly pressing the US government to ease its ban on sales to the Chinese tech giant, affirming "This isn't

[20] "US Chamber of Commerce pushes Trump to end trade war", *Financial Times*, June 17, 2019

[21] "Wal-Mart, Hundreds of Others Call on Trump to Drop China Tariffs", *Bloomberg.* June 13, 2019

[22] "Wal-Mart, Hundreds of Others Call on Trump to Drop China Tariffs", *Bloomberg.* June 13, 2019

[23] Letter to the White House, "Tarrifs Hurt the Heartland", June 13, 2019

[24] "Apple warns Trump tariffs would hurt its competitiveness," *Financial Times*, June 21, 2019

[25] "More China tariffs could push the US into a 'Trump recession,' consumer tech group CEO says," *CNBC,* June 11, 2019

about helping Huawei. It's about preventing harm to American companies." [26]

On June 17, the US Trade Representative Office (USTR) began a seven-day hearing on the additional tariffs to be put on $300 billion of Chinese exports to the US. AFP reports that more than 1,200 written comments and requests to appear in person were submitted. From the first day, representatives from all quarters of the US business community voiced a chorus of opposition to the proposed tariffs. On June 17, Reuters reported that US companies from various sectors including clothing, electronics, and other consumer products, reported that they had no alternatives to China. AFP described the hearing as "the loudest warning to date." On June 19, Dell, HP, Microsoft and Intel issued a joint statement citing data from a recent study showing that proposed tariff measures would increase the price of laptops and tablets in the US by at least 19%, or around $120 for the average retail price of a laptop. [27] The statement went on to point out that a price hike of that magnitude "may even put laptop devices entirely out of reach for our most cost-conscious consumers."[28]

Since the tensions over trade escalated last year, US government has enacted visa measures targeting Chinese scholars and students with the propagation of "Chinese spy" discourse in the US. This development is resisted by American higher-ed and research institutions. In recent months, Yale University, Stanford University, University of California Berkeley and Davis, Rice University, University of Michigan have all made public statements about the danger of the trade conflict spilling over to disrupt the flow of talent. According to an American professor, discriminating against Chinese scholars in visa would reflect poorly on the US, resulting in the loss of Chinese talent supporting US research superiority as well as truncated revenue stream from Chinese students for US schools. [29]

II.III Trade war slows China's growth rate and structural rebalancing

Given China's trade surplus with the US, the first and foremost impact of the trade war on China is on exports. Customs data shows the China's exports to the US fell by 9.7% year-on-year in the first 4 months of 2019, dropping for 5 months in a row. US consultancy the Rhodium Group

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26 "U.S. chipmakers quietly lobby to ease Huawei ban," *Reuters*, June 17, 2019

27 David Lawder, "U.S. firms say China tariffs will raise costs, see few sourcing alternatives", *the Reuters*, https://www.reuters.com/article/us-usa-trade-china-tariffs/u-s-firms-say-china-tariffs-will-raise-costs-see-few-sourcing-alternatives-idUSKCN1TI1MM

28《中国就是不可替代》，参考消息，2019 年 6 月 20 日

29 《美收紧中国留学生签证引担忧》，参考消息，2019 年 6 月 18 日

estimates that imposing a 25% tariff on all Chinese exports to the US will reduce US GDP by 0.9% by 2025, while China's annual GDP will lose 1.2%.[30] Given the current trend of deceleration, this year the Chinese government has lowered its official growth target from 6.5% to 6%. The Chinese government estimates that a full eruption of the trade war will cut the annual growth rate by 1.4 percentage points. To ensure the growth rate remains above 6%, China has implemented or is preparing to implement a series of fiscal, monetary and infrastructure investment measures, with yet other measures in the pipeline. [31]

China's (Consumer Price Index) CPI continued to climb in May this year, reaching 2.7%. In the same month, the Producer Price Index (PPI) remained low, falling to 0.6. Professor Liu Zhibiao of Nanjing University has said this divergence warrants serious attention and cites trade frictions as a major cause of China's economic slowdown. Liu argues that from a broad perspective, downwards pressure on China's economy stems from the disappearance of dividends that supported rapid growth in the past, which arose from serious structural imbalances such as the imbalance between the real and non-real economy. In Liu's view, China's real economy lacks vigor and needs to be revitalized. In addition, China's economy faces structural issues such as excess capacity in some sectors, overleverage, and supply gaps for technology. Addressing these issues is the primary reason for China undertaking the current program of supply-side structural reforms. While trying to address economic imbalance and deceleration, having to also face the external context trade frictions with the US is particularly unfavorable.[32]

Further escalation of the trade war is bound to impact the real economy, complicating the task of financial deleveraging. In recent years, the impact and frequency of macroeconomic shocks on the real estate sector has continued to increase. Since the start of the trade war in 2018, policies regarding real estate have had to be adjusted every three months or so, making the task of stabilizing land prices, property prices and expectations more difficult. The result of policy loosening is that yet more funds will flow into real estate. In addition, trade war shocks on real estate have led to more issuance of overseas dollar-denominated debt. In 2016 during a period of declining foreign currency reserves and capital outflows from China, credit ratings agencies Standard & Poor and Moody's downgraded Chinese state-owned enterprises and financial institutions. A similar occurrence would not be unexpected given the current large volume of dollar denominated debt in the China's real estate industry. This would result in unpreventable spillover

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[30] Daniel H. Rosen, Lauren Gloudeman, and Badri Narayanan Gopalakrishnan, "Assessing the Costs of Tariffs on the US ICT Industry: Modeling US China Tariffs", *Rhodium Group*, March 15, 2019

[31] 《认清本质洞明大势斗争到底—中美经贸摩擦需要澄清的若干问题》《求是》2019 年第 12 期

[32] "刘志彪：依靠统一战线法宝稳外资打赢中美贸易战，"中宏网，2019 年 6 月 18 日 https://www.zhonghongwang.com/show-278-138125-1.html

impacts for the entire capital market. The stability of real estate developers is very important in the context of the current trade war. Of the three driving forces of China's economy, consumption and trade are weak, leaving only investment which is highly dependent on real estate. In addition, local government are having to turn to land sales to ease debt pressures. Given these factors, real estate has come to serve as a ballast in the current period, but likely at the expense of making progress in deleveraging. Thus, the escalating trade war is likely detrimental the long-term process of deleveraging. [33]

In the long run, continuation of economic frictions with the US will hurt the development of China's high-tech industries. For a long time, China has been embedded in global supply chains through contract manufacturing, cross-border procurement, and OEM outsourcing, assembly and production. Currently, Chinese firms mainly inhabit lower-value links of global value chains. In general, multinational corporations from advanced economies remain the dominant players in global supply chains. If the US is to cut Chinese firms out of global value chain, this will be a blow to Chinese high-tech industries. Within a short period, private enterprises will be forced to seek alternative products to ensure survival, causing huge economic losses. US firms will have to terminate cooperation arrangements, damaging the credibility of US industry and hurting the development of high-tech fields. In light of these risks, Chinese enterprises must increase investment in independent innovation and enhance their own R&D capabilities. While they might strengthen their grasp of some core technologies, shifting China's existing development track of exchanging market for technology would incur major costs.

II.IV Trade war hurts the global economy

There are signs that the trade war is impacting the Chinese economy in ways that are undesirable not only for China, but also the rest of the world. A broad group of economists have voiced concerns that the trade war may trigger a new global recession. For example, one recent note from JPMorgan Chase draws a rough division between two phases of recent equity market history: a rising market in anticipation of tax reform (that boosted the economy and corporate earnings), and a value-destroying trade war. The trade war has already offset all the benefits of Trump's fiscal stimulus. If it continues, it could put the global economy into recession. The author of the note goes on to argue that if such a recession does materialize, historians of the future may label this the "Trump recession" because it was caused primarily by the trade war. [34]

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[33] FT 中文网 《中美贸易战对房地产业的冲击》

[34] "Marko Kolanovic Talks 'The Trump Recession', Says Market Damage From Trade War Is '100X The Tariffs Collected", *Heisenberg*, June 12, 2019

Similarly, in an article published by *Australian Financial Review* on June 10, US economist Nouriel Roubini listed 10 factors that could trigger a recession in the US and globally in 2020. Many factors listed involve the US, particularly its trade disputes with China and other countries. Other risks cited include restrictions on immigration, foreign direct investment, and technology transfer that could impact global supply chains, thereby exacerbating the threat of stagflation (slow growth accompanied by inflation). [35]

In its recent *Global Economic Prospects* report released in January 2019, the World Bank warns of growing tensions and slowing investment. The report emphasizes that the global economy is fragile and bears significant risks, with both trade and investment weaker than expected at the start of 2019. [36] Similarly, the IMF's *World Economic Outlook*, released in April of this year, reduced the projected global growth rate from 3.6% in 2018 to 3.3% in 2019, warning that economic frictions will continue to stifle already-weak global investment, dragging on the global economic recovery.[37] Echoing this message, IMF Managing Director Christine Lagarde recently warned that trade tensions between China and the US are a major threat to the world economy. [38]

III. Recognizing China's steps to address concerns since the start of the trade frictions

III.I Ongoing opening of market access

Recent years have seen continued trimming of China's "negative lists" for foreign investment. While the first negative list implemented by the Shanghai Free Trade Zone (FTZ) in 2013 had 190 restricted items, the current 2018 FTZ list has only 45 restricted items, while the national negative list has only 48. There has been substantial opening of market access in primary, secondary and tertiary industries, as well as roadmaps and timelines for opening up in the automotive and financial sectors. The 2018 negative list issued by the National Development and Reform Commission and the Ministry of Commerce saw a new round of opening up in 22 areas. On July 28, 2018, a series of restrictions on foreign investment in banking, securities, auto manufacturing, power grid construction, railway trunk line construction, and construction of gas

35 NourielRoubini, "Deepening trade war makes a 2020 recession more than likely", *Australian Financial Review,* June 18, 2019

36 "Global Economic Prospects", *the World Bank*, Jan 2019

37 World Economic Outlook, *IMF*, April 2019, https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx

38"IMF Managing Director Lagarde Calls for Cooperation to Support Global Growth，" *IMF*, June 9, 2019 https://www.imf.org/en/News/Articles/2019/06/09/pr19205-imf-managing-director-lagarde-calls-for-cooperation-to-support-global-growth stations (chain) were cancelled. The 2019 revision of this list will see further openings in agriculture, mining, manufacturing, and services.

In the automotive sector, foreign ownership restrictions will be lifted for commercial vehicles by 2020 and passenger vehicles by 2022, and the limit of two joint ventures for each company will also be abolished. In the financial sector, current restrictions on foreign ownership in banking have been abolished and caps on foreign ownership in securities, fund management, futures and life insurance have been lifted to 51%. In 2021, all foreign ownership restrictions in the financial sector will be abolished. Recently, Wang Zhaoxing, vice chairman of China Banking and Insurance Regulatory Commission (CBIRC), said that CBIRC will announce 12 new measures to open up the financial sector, including further liberalizing the shareholding ratio of foreign capital, significantly reducing restrictions on establishment of foreign-funded institutions, and further liberalizing the scope and sectors for foreign investment.

Foreign companies are already benefitting from this opening-up. On June 6, China Securities Regulatory Commission approved Morgan Stanley-Huaxin Securities' application for change of equity holdings, under which Morgan Stanley International Holdings will hold 44% of shares, becoming the largest shareholder. This will make Morgan Stanley-Huaxin Securities the first majority foreign-owned China mutual fund. Regarding brokerages, since last year when CSRC officially issued *Administrative Measures of Foreign-invested Securities Companies*, three foreign-controlled brokers have been established, namely, UBS Securities, JP Morgan Securities (China), and Nomura Orient International Securities. Credit Suisse Founder Securities Limited is expected to become the fourth foreign-controlled joint venture brokerage. In addition, there are now 19 foreign-owned private equity investment funds, including FIL Investment Management, UBS Asset Management, Man Group, Schroders group, and Bridgewater Associates, with 38 fund products filed and total managed funds of CNY 5.2 billion yuan.[39]

As the G20 Leaders' Summit approaches, China's opening-up process continues to accelerate, with new foreign investment negative lists for the entire country and FTZ pilot zones expected soon.[40]

III.II Foreign Investment Law safeguards the interests of foreign investors in China

In 2019, at the Second Session of the 13th National People's Congress, China's Foreign Investment Law (FIL) was passed, setting a new legal foundation for foreign investment. Domestic and international observers have generally recognized that the passing of the FIL marks

39 "沪伦通启动！A 股对外开放步伐加快，" 新华社新媒体，2019 年 6 月 18 日

40 "两大负面清单即将公布！中国开放'点面俱到'，保持对外资高吸引力"，第一财经，2019 年 6 月 20 日

an important step in China's opening up to foreign investment. The FIL not only clarifies that domestic and foreign-invested enterprises should be treated equally and fairly, it also established comprehensive pre-entry national treatment and a negative list management system for foreign investment. The FIL also provides clear protections on issues of concern to foreign investors such as intellectual property (IP) protection and technology transfer. The FIL thus sends a clear signal to the world of China's commitment to trade liberalization and investment facilitation, marking the strong intention of the world's second largest economy to seek ever deeper integration with the global economy.

III.III Reduced tariffs and growing imports

China's international trade volume reached a record high in 2018. Imports increased by 15.8%, contributing more to total trade growth than exports, or 56.6%. According the WTO data, in the first three first three quarters of 2018, China's imports accounted for 10.9% of the global total, up 0.7 percentage points, while China's import growth contributed 16.8% to global import growth. Over the next 15 years, China is expected to import $30 trillion of goods. This represents massive opportunities for exporters in the US and elsewhere.

As imports rise, a series of tariff reduction measure are sending a positive signal on China's continued opening-up. China's overall tariff level fell from 9.8% in 2017 to 7.5% in 2018. China is already the largest trading partner of more than 100 countries and regions, has signed free trade agreements with more than 20 countries or regions, and has actively participated in WTO reforms to promote the multilateral trade negotiation process.

Regarding trade in services, it notable that in 2019 Q1, as well as study abroad and tourism, high-tech services including IT and R&D also grew significantly, with actual foreign investment of CNY 40.67 billion, an increase of 88% year-on-year. Growth in actual foreign investment in IT services, R&D, design, and application of science and technology saw rapid growth of 85%, 52.9%, and 85.2%, respectively. Investment from the key sources of Germany, South Korea, the United States, and the Netherlands, maintained a relatively high growth rate.

IV. Recommendations

The China-US bilateral relationship is the world's most important. Cooperation between China and the US brings great benefits to both sides. Conversely, friction between them not only hurts both economies, but also endangers global peace and prosperity. Building on long-term research on China-US relations and repeated visits to the US, CCG puts forward the following ten recommendations to relieve tensions between China and the US in the ongoing trade negotiations and to chart a course to a mutually-beneficial agreement.

1. ***Advance dialogue and communication about the China-US trade talks, calling for a return to the "Argentine Consensus" at the upcoming US-China summit at the G20***

On December 1, 2018, President Xi Jinping and President Trump met at the G20 Leader’s Summit in Buenos Aries. At this meeting, a consensus was reached to halt any new tariffs and direct the negotiation teams of both sides to accelerate talks towards a mutually beneficial agreement to cancel all tariffs already imposed. This “Argentina Consensus” marked an important turning point in China-US trade tensions that had built for more than eight months. The escalating trade war between the world’s two largest economies, to the point of a threatened “decoupling,” is not only a grave misfortune for China and the US, it also threatens to harm nations around the world.

The upcoming meeting between President Xi and President Trump at the G20 in Osaka offers a valuable window of opportunity to enhance dialogue, return to the "Argentina Consensus," and address points of contention so that China-US relations can return to their rightful, mutually-beneficial track. The China-US summit in Osaka is also a chance for China to reaffirm its position and for both sides to reach a new China-US trade agreement and apply the brakes to the damaging tit-for-tat trade war.

2. ***Improve accounting methods for China-US trade to more accurately and fairly reflect the value gained by both countries, including trade in services, tourism, and study abroad***

Accounting methods used to measure the value of China-US trade should be updated to reflect the reality of economic exchange and global value chains in the 21st century. Estimates of the China-US trade deficit currently vary depending on the accounting methods used. At present, measurements used by both governments neglect trade in services, such as tourism and study abroad. If trade in services is accounted for, the China-US trade deficit falls to around $ 100 billion.

In future, trade between China and the US should be calculated in a way that takes account of global value chains, that is, the real value added in each respective country. This will reflect the true value of trade between the two countries in a more accurate, fairer way. Using analytical and statistical frameworks that more accurately capture the nature of modern trade will help to provide a more realistic picture of the China-US economic relationship. This would help refute false, oft-repeated claims that current trading arrangements benefit China only at the expense of the US. It would also put China in a better position to influence the future reform of international trade rules.

3. *Increase purchases of US imports while the US ease the export control and lift the ban on Huawei to jointly mitigate the impact of China-US trade frictions*

Of the three principles defined by the Chinese side after the 11th round of trade negotiations, President Trump is likely more concerned than his negotiating team with the second, namely the amount that China imports from the US. This view is shared by figures such as ASPI Chairman and former Australian Prime Minister Kevin Rudd and a number of US officials. Given the upcoming 2020 election, Mr. Trump would like to sell an agreement that incudes Chinese purchases of US imports as an achievement to win over voters. China can seize this opportunity to boost domestic demand and increase purchases of US goods as appropriate in order to mitigate the current drift in China-US relations. Given the Trump administration's recent measures targeting Chinese tech companies such as Huawei, US-China cooperation on technology is practically grinded to a halt. Should the US government ease the export restriction on tech exports to China while putting the brakes on persecuting Chinese tech companies, an escalation of trade frictions shall be averted, hence a broader conflict across technology, standards, talent and finance with concomitant and irreversible negative impacts on the Chinese economy forestalled.

4. *Improve implementation details for China's Foreign Investment Law, boost actions to attract foreign investment, and address US concerns about Chinese legal issues*

Accelerating the formulation and implementation of supporting rules for the Foreign Investment (FIL) will help to increase legal protections for foreign investment. It will also encourage more US companies to invest and operate in China, bringing the US business community closer and integrating US firms into China's market. In turn, this will make it impossible for the two economies to "de-couple," promote a conclusion to the China-US trade agreement, and allow for healthy competition without conflict.

At the same time, FIL implementing rules can also be used to respond to specific legal concerns raised by the US in trade talks. For example, the World Intellectual Property Organization could be invited as a third-party supervisor when formulating detailed FIL implementing provisions on issues such as intellectual property rights and forced technology transfer. This would strengthen reliable legal safeguards for the rights of foreign investors in China and help dispel concerns of the US, paving the way for a China-US trade agreement that is fair and in the interests of both countries.

Furthermore, China and the US could consider drafting an appendix to the agreement text that lists all the relevant legal concerns of both sides, with either side explaining items internally as needed. This could help to break the deadlock in their trade talks over legal issues.

5. ***Continue to uphold the multilateral trade system, use multilateral cooperation to promote WTO reform, and evaluate the opportunity for China to join the CPTPP***

The marginalization of the WTO has been an important factor in the ongoing trade frictions between China and the US. China should work closely with the EU, Japan, Australia and other countries to promote reform of the WTO, upholding and innovating the free trade system through multilateral cooperation. At the same time, China can also cooperate with the US on WTO reform.

China can also demonstrate willingness and ability to participate and strengthen the multilateral economic order by further actively multilateralizing the Belt and Road Initiative. Building on the momentum created by Italy joining the BRI, the first G7 member to do so, China could invite more industrialized nations to join the BRI. China can further partner up with countries like Russia and the UK on global governance agenda, anteing up its share of international responsibility. Cooperation between the Asian Infrastructure Investment Bank (AIIB) and other multilateral development financing institutions such as the Asian Development Bank is another path for China to promote multilateralism.

In addition, joining CPTPP would boost China’s role in multilateral cooperation and send positive signals to the US and rest of the world of China’s commitment to further open its economy and adopt high standard international rules. Alignment with these international rules would also help to mitigate tensions with the US. Meanwhile, China should actively promote the conclusion of the Regional Comprehensive Economic Partnership (RCEP) and Free Trade Area of the Asia Pacific (FTAAP) to upholding the multilateral trading order in Asia.

6. ***Conduct an in-depth study of “zero tariffs, zero barriers, zero subsidies” to explore how to use a high-level of openness to promote economic globalization***

China's development path over the 40 years of Reform and Opening-up is closely intertwined 40 years of China-US relations since diplomatic ties were established. China will be the largest global market for US companies in the future. China's best response to the geopolitical pressure of the United States is to continue to expand its opening. On the other hand, China should be aware of the tendency that a trading bloc of western industrialized countries resembling an “economic NATO” is taking form - the US has signed renewed trade agreements with Canada and Mexico, the EU has signed an FTA with Canada; Japan has signed an FTA with Canada and is in talks with the US towards an agreement.

While working to prevent the “de-coupling” of its economy with the US, China should also strengthen bilateral and multilateral economic cooperation with the EU, Japan, India, ASEAN, Canada, Australia and other countries to jointly address the many challenges facing the world economy. In addition, China should thoroughly study the advantages of a “zero tariff, zero barrier, and zero subsidy” approach to cope with the profound changes reshaping global trade patterns, continue to adopt a more open trade policy, and demonstrate China's commitment to continued support for opening-up and economic globalization.

Huang Qifan, vice president of the China Center for International Economic Exchanges, also believes that if China can do well in achieving the "three zeros" options. For him, it would be like China entering the WTO for the second time, which will lay the foundation for China to be a strong world power. He says that if China implements zero tariffs, the benefits in manufacturing, agriculture, energy and minerals, consumer goods and other areas would outweigh the disadvantages; and zero barriers will greatly improve China's business environment and enhance Chinese companies' global competitiveness ; if zero subsidies are carried out, any financial assistance provided by the government will be directed toward areas most necessary, which will be conducive to structural adjustment aimed to reform state-owned enterprises and rent-seeking behaviors, and ultimately reduce trade frictions with the US. [41]

7. Strengthen further ties between Chinese and US businesses to prevent decoupling

Deepening links between Chinese and US businesses will require further opening up of the Chinese economy, for example, lowering barriers for market entry and increasing efforts to attract US investors. It is recommended that China open new sectors to US companies, thus demonstrating an open attitude to mutually beneficial cooperation. Such steps could include granting US firms such as VISA and Mastercard more space to operate and opening up to Silicon Valley firms, helping to build trust on both sides. Hope remains high for China-US commercial cooperation within the US business community. For instance, a recent note from Morgan Stanley predicts that a China-US trade deal could propel the US to the top of China's LNG supplier list by 2025. If trade hostilities are ended, the US trade deficit with China could be reduced by $17 billion per year due to the LNG exports alone. Such a trade agreement could achieve a win-win outcome, boosting US exports while helping to meet China's energy import needs. [42]

Another way to deepen bilateral links would be for China to invite the US to join the AIIB and give the US attractive shares, while leveraging synergies with US multinationals to explore cooperation opportunities in third markets along the BRI. Meanwhile, China can also enlist the US as a partner to the BRI development plan as a conduit to promote a multilateral mechanism for the BRI. Furthermore, given the importance President Trump attaches to upgrading US infrastructure, ahead of the presidential election next year, China could take the opportunity to cooperate with the US in infrastructure investment. Other promising areas for cooperation include agricultural products, energy, collaboration between e-commerce and technology firms, and increasing

41 "黄奇帆：中国如果实施零关税、零壁垒、零补贴，等于第二次'入世'"，凤凰网财经，2019 年 05 月 09 日

42 "Trade Deal Could Propel U.S. to Top of China's LNG Supplier List", *Bloomberg,* June 13, 2019

tourism to the US. Expanding cooperation in these areas would enhance the competitiveness of Chinese enterprises and fulfill the needs of Chinese consumers, while helping to balance China-US trade relations and relieve the political pressure on China.

In addition, China can dilute the restrictions placed on ownership of enterprises to a certain extent, instead, put more emphasis on the competitive neutrality principle, diminish the distinct concept of “foreign” businesses, and work to strengthen ties between Chinese and US firms such as by holding forums bringing together Chinese and US entrepreneurs.

8. Strengthen measures to protect IP and increase efforts to crack down on IP infringement

Regarding IPR, there is no substantive difference in views between the leadership of China and the US. Both sides believe in robust protection of IP rights for all, including Chinese and US firms, and oppose forced technology transfer. Despite this, the US continues to hold major doubts regarding China’s stance towards IP. To address this, China can step up measures to implement IP protection. It is proposed that a joint China-US IP protection consultation mechanism or consultative committee could be created, or to have the World Intellectual Property Organization establish a third-party monitoring mechanism.

In addition, China and the US should strike a new agreement on IP protection and set up a long-term bilateral IPR cooperation mechanism. It should also be remembered that, as members of the WTO, China and the US should conduct bilateral consultations under the framework of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

9. Enhance the role of “sub-national diplomacy” by actively strengthening cooperation with US state and municipal governments

In the US federal system, local governments have considerable autonomy regarding local affairs and external relations. Provinces and cities in China can benefit from this flexibility and the investment needs of US localities actively expand cooperation with US state and municipal governments. For example, even amidst increased China-US tensions, local workers and government officials in Springfield, Massachusetts have high praise for China Railway Corporation (CRRC) and its local facility that manufactures rail equipment. Springfield’s Mayor pointed out that the success of CRCC’s first North American facility is “critical to our city and the region’s economy, bringing back manufacturing and skilled labor.” [43]

On June 18, 2019, the State of New York passed a bill establishing "China Day." On June 20, Chinese Foreign Ministry spokesperson Lu Kang commended seven US states – New York, California,

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[43] “Trade war: will US espionage fears scupper Chinese rail group?” *Financial Times*, June 20, 2019

Nebraska, Tennessee, Iowa, Utah, and Illinois, at a press conference, for passing legislations and issuing congratulatory documents in support of the 40-year US-China ties. He stressed that strengthening relations with US states and municipalities ranks is currently a high order task for Chinese diplomacy.[44] There are still important local US constituencies supporting friendship with China. Future economic cooperation between local governments in China and the US could be facilitated by creating new mechanisms for exchange and dialogue between China and the US at the gubernatorial and mayoral levels.

10. Strengthen China-US people-to-people relations and enhance non-governmental diplomacy

Study abroad and tourism are important channels to strengthen ties between China and the US. This kind of cultural exchange helps people of both sides to deepen friendships and mutual understanding, while also sowing seeds for bilateral economic cooperation. Tourism, study abroad and the flow of skilled immigrants between China and the United States have long been undervalued as important components of the bilateral relationship. In this crucial period of tensions between China and the US, it is important to revive the commit to strengthening cultural exchanges between the two countries. In the case of Japan, while the Sino-Japanese relations were strained in the past, the people-to-people ties grew closer than other periods. Close to 10 million Chinese tourists visited Japan in recent years, helping to thaw the bilateral relationship. The same outcome is possible for the US. Enhanced trade between the two countries in services such as tourism, education, and EB1 immigration serve to satiate the market's appetite while help to narrow down the US trade deficit with China.

Both China and the US should attach importance to Track II diplomacy. Exchanges between think tanks, trade associations, NGOs and other organizations can help both countries establish effective and flexible communication channels and dialogue mechanisms, helping to convey the perspectives of both sides, overcome misunderstandings, and eventually bridge differences and propose solutions. The role of Chinese and US think tanks is especially important. Think tanks from both sides should actively engage in dialogue and promote exchanges between experts in various fields to help overcome economic and political barriers and support policy formulation in China and the US.

China is facing unprecedented changes today. Global value chains and supply chains established over the past seventy years are being reconfigured. Economic globalization is in a transition period between new and old sources of impetus. In trade, as Chinese firms climb global

44 "陆慷一口气表扬了美国七个州"，参考消息，2019 年 6 月 22 日

value chains, the complementarity of the US and Chinese economies is weakening while competition is heightening. The China-US trade frictions make it clear that the “period of strategic opportunity” which began at the start of the 21st century with WTO accession is closing, while the new “development dividend” has yet to fully materialize. China’s rapid rise as the world’s second largest economy and a technology power and its choice of development path have come to be seen as a “strategic competitor” to the US and an opponent to western values.

Under the threatening clouds of a “new Cold War,” finding ways of effective communication and cooperation that can minimize friction and prevent escalation from self-harm and damage to the world requires leaders of both countries to search for a “pareto optimal solution” within reason. The logic “isolation broods backwardness, backwardness invites humiliation” explained the broad social consensus for China’s reform and opening-up program during its formative period. This social consensus has not changed. China is set to respond to the economic conflict led by the US with undiminished commitment to greater openness and ever improving policy measures. As political scientist Prof. Zheng Yongnian likes to say, “Only by exercising rationality can nations protect and advance their rightful interests. Only by exercising rationality can China fulfill its responsibilities for the region and the world as a great power.” [45]

45 “郑永年：中国应对贸易战的关键是理性，”IPP 评论

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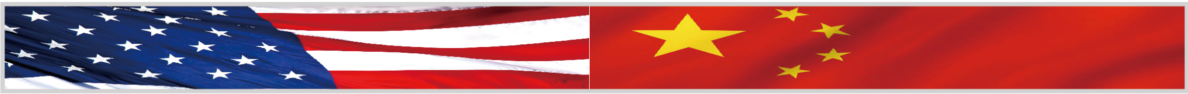
Appendix 1： the Timeline of the US-China trade war



Stands for Denotes tariff-related action

March 22, 2018
The US releases an official report stating that China has conducted unfair trade practices pertaining to technology, intellectual property, and innovation.

April 3,2018
The US announces 25% tariffs on $50bn of Chinese goods.

April 4,2018
China announces 25% tariffs on $50bn of US goods.

April 16,2018
The US bans the sale of components to Chinese tech company ZTE.

May 23,2018
The US Commerce Department begins investigation the national security impact of auto imports.

July 6,2018
The US imposes 25% tariffs on $34bn of Chinese goods.

July 6,2018
China imposes 25% tariffs on $34bn of US goods.

July 10,2018
The US announces 10% tariffs on $200bn of Chinese goods.

July 13,2018
The US lifts its ban on ZTE.

August 3, 2018
China announces tariffs on an additional $60bn of US goods.

August 23, 2018
The US implements a 25% tariff on $16bn of Chinese goods.

August 23, 2018
China implements 25% tariffs on $16bn of US goods.

September 24, 2018
The US implements 10% tariffs on $200bn of Chinese goods.

September 24, 2018
China implements 5–10% tariffs on $60bn of US goods.

China also released a White Paper, laying out the government’s official position on the US-China trade relationship.

November 9, 2018
The US and China resumed trade talks.

December 1, 2018
The US delays the step-up in tariffs from 10% to 25% on $200bn in Chinese goods until March 1.

December 2, 2018
The US and China agreed to a 90-day truce.

December 14, 2018
China temporarily lowers tariffs on US autos and resumes buying US soybean exports.

February 17, 2019
The US Commerce Department delivers its findings on autos to the White House.

February 24, 2019
The US delays the step-up in tariffs on $200bn in Chinese goods for a second time until further notice.

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

May 5, 2019
President Trump tweets that the US will raise tariffs from 10% to 25% on $200bn in Chinese goods, and announces all remaining Chinese imports could soon face levies.

May 10, 2019
The US increases tariffs on $200bn of Chinese goods from 10% to 25%.

May 13, 2019
China announces a step-up in tariffs rate on $60bn of US goods from June 1, 2019.

May 16, 2019
The US places Huawei on its entity list, banning it from purchasing from US companies.

May 31, 2019
China announces that it will establish its very own unreliable entities list in retaliation to the US’ entity list.

June 1, 2019
China imposes a step-up in tariffs rate on $60bn of US goods.

June 2, 2019
China issues white paper titled, China’s Position on the China-US Economic and Trade Consultations.

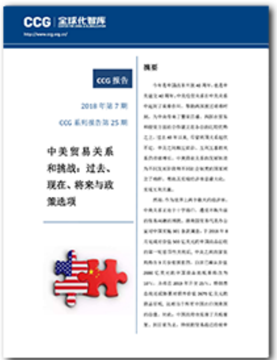
June 14 2019
Walmart Inc, Target Corp and more than 600 other companies urged President Trump in a letter to resolve the trade dispute with China, saying tariffs hurt American businesses and consumers.

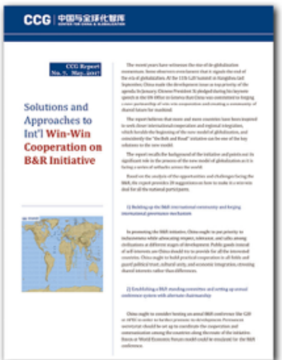
June 27–29, 2019
President Xi and president Trump will meet at the G20 summit to resume negotiations.

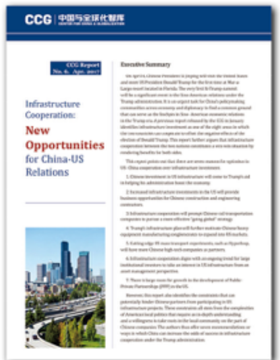
Appendix 2: Recent CCG Activities regarding Sino-US Economics and Trade Research

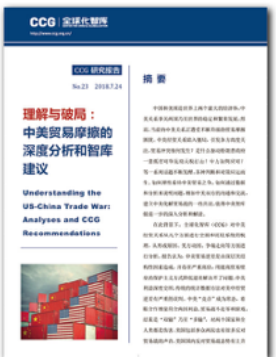
Local Time	Location	Events
May 1st	Washington DC	CSIS Seminar
May 1st	Washington DC	Hudson Institute Seminar
May 1st	Washington DC	US Chamber of Commerce "The 10th Chinese Business Forum"
May 2nd	Washington DC	Heritage Foundation Luncheon Seminar
May 2nd	Washington DC	Wilson Center Kissinger Institute Seminar
May 2nd	Washington DC	Visiting American Enterprise Institute
May 2nd	Washington DC	Carnegie Endowment for International Peace Seminar
May 2nd	Washington DC	US Chamber of Commerce Seminar
May 3rd	Washington DC	CATO Institute Seminar
May 6th	New York	National Foreign Trade Council Lunch Seminar
May 3rd	Washington DC	US-China Business Council Seminar
May 3rd	Washington DC	Pew Research Center Seminar
May 6th	New York	National Committee on United States-China Relations Seminar
May 17th	Beijing	Roundtable featuring the visiting former Prime Minister of Australia Kevin Rudd
May 21st	Washington DC	The 3rd edition of China-US Business Forum

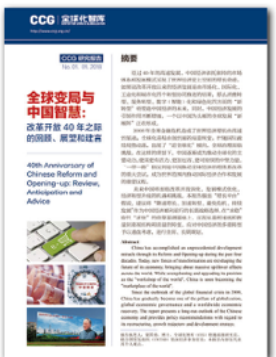
CCG Related Reports

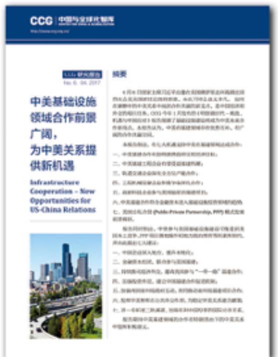


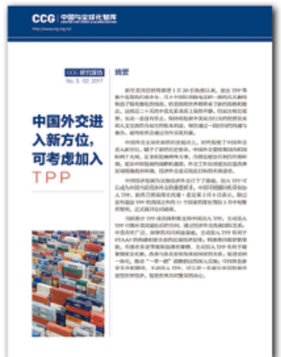


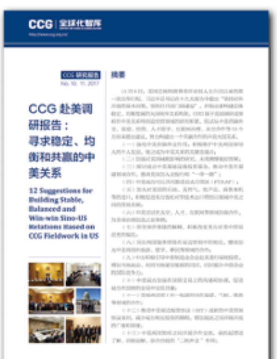


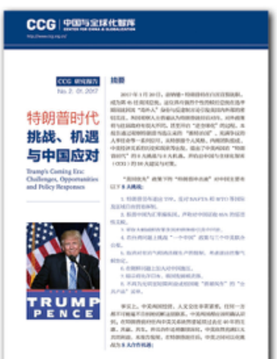


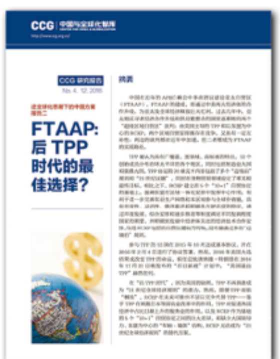


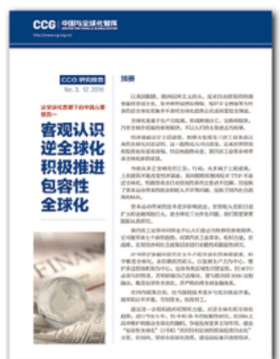












CCG 全球化智库 CENTER FOR CHINA & GLOBALIZATION

Global Vision for China, Chinese Wisdom for the World

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