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Year 2018 marks the beginning of a seismic change in the US trade policy towards the entire world, after US president Donald Trump's Davos speech early in the year. The world gets to have a bitter taste of what "America First" really means for their economic relations with Washington. Amid one trade measure after another hurled from the Washington, our rule-based global economic order is facing unprecedented challenges from the very party that was responsible for setting up the system in the first place, and that has used its remarkable power to keep peace and prosperity for most parts of the world for the last 70 years. A looming trade war between the US and the entire world runs the risk of sliding our global economy into another dark Smoot-Hawley era. China is first and foremost in facing this great challenge. Just as we speak here, a large trade team sent by Trump is heading to Beijing for the mother of all trade negotiations. Many other nations, including some of the people in this ballroom represent, will not be immune to the things to come.

Today I am going to talk about how we have come to this stage, mostly from the China's perspective, and also provide some ideas of possible solutions to this conundrum. I firmly believe that there is a way out. I firmly believe that we have to find a way out.

Last year, America's trade deficit with China in goods alone is over \$350 billion, and China's cumulative trade surplus since the day we started to have a surplus, according to US statistics is \$32 trillion. Granted, these numbers are grossly exaggerated, if taking into account only the value added created in China, and if taking into account the service trade as well where China runs a large deficit with the US. Experts estimate the real American trade deficit with China is probably about two thirds to half of this \$350 billion number. Nevertheless it is still a very large number, still larger than America's second largest trade deficit that is with Japan. Both Beijing and Washington recognize this is not sustainable, both economically and politically. Thus the Chinese government is thoroughly committed to helping corporate America in exporting more goodies to China. No minister of commerce in the world is so fixated on increasing imports as China's is. Have you heard of such a commerce minister whose primary task is to increase imports? In coming November, we will have the world's first and mostly like the only imports exhibition in Shanghai, clearly targeting corporate America for the most part. I encourage our Turkish friends here to take a free ride as well by renting a booth there. It is not going to cost an arm and a leg.

But let me also proclaim that this trade spat across the Pacific is not just about the trade deficit. Donald Trump himself may appear to have a consistent misunderstanding of and disdain for trade deficit, as his grudge against it is evident in steadfastly rejecting Japan, a close ally in Asia, to be exempted in the Section 232 tariffs on steel and aluminum.

Trump may be also somewhat influenced by Peter Navarro, his trade advisor, who is obsessed with bringing the manufacturing base back to the US. Navarro once wrote a book and a documentary, both under the title, "Death by China", representing an odd extremist view that is rejected by the mainstream economics community.

Certainly America's trade war with China is about something much deeper, something more profound, and shall I say about something that concerns peace or conflict in the Pacific region for the next fifty years. One only needs to go through the US Trade Representative office's 200 some page Section 301 investigation report to understand Washington's real intentions.

The Section 301 report written by Lighthizer's office is mostly fixated on China's so-called distortionary trade practices, for things like China's industrial policy, state aid, SOE role, IPR protection and alleged government's organized effort to acquire foreign high-tech companies. Short of spelling out the phrase "innovation mercantilism," which is the brainchild of ITIF's Robert Atkinson, (ITIF standing for the Information Technology and Innovation Foundation, which is a think tank based in Washington DC), Lighthizer and these folks are alerted by the sudden sharp ascension of China's innovation capabilities. In their mind, corporate China's global expansion coupled with their high ground in technologies represents a frightening challenge to corporate America, as it will have long-lasting repercussions on good-paying American jobs and America's military technology superiority.

There is yet a larger context that explains Trump's trade war, which is merely one dimension of the wholesale shift in America's China policy. This shift is the result of America's total disappointment or more appropriately disillusion with China's growth path after its accession to the WTO. Campbell and Ratner summarized it best in a recent paper entitled "The China Reckoning," published in this April's Foreign Affairs, which is a leading international relations journal. In their words, China didn't develop based on the trajectory as envisioned at the time of its accession to the WTO and there is no hope to see if it ever will get closer to that trajectory. In the eyes of disciples of this line of thinking, the Washington consensus is the only path to economic success, and anything else borders on heresy. As a result, America needs to shift gear in dealing with China, a shift towards more of confrontation than engagement.

This arrogant and hubris view indeed enjoys wide support on the Capitol Hill, as evident in the recent passage of the Taiwan Travel Act. Not a single vote is in opposition in both the House and the Senate.

The last reason I can fathom underlying America's trade war with China is related to America's foreign policy in general, not just that with respect to China. America's foreign policy is returning to the old geopolitics game after entanglement with the Islamic terrorism for a long time. ISIS is barely holding on in a few isolated pockets in Syria and it is about time for America to move on to the next bigger game. Hence came the national security review led by defense secretary Jim Mattis, that lumps China together with Russia as revisionist states, strategic competitors and such. This is essentially a new version of the cold war.

There is indeed much truth in what America is concerned about and afraid of. Today, China's economy is the second largest, only next to the US. On a purchasing power parity calculation, China's GDP has already exceeded that of the US. In 20 to 30 years, GDP per capita would be likely on par for the two countries. More importantly, on technology and innovation, corporate China is rapidly catching up. For example, on solar and wind power, on flat display, on telecommunications, on electric vehicles, on UAVs, China is displaying a technological prowess nothing short of the US. On

investments in future technologies, for things like big data, robotics, artificial intelligence, there is a venture capital race right now on the two sides of the Pacific. ‘

Are China and the US destined on a collision course? Is the ultimate showdown inevitable one way or another? Is this purported trade war a mere harbinger of possibly something of a real war? These are mind-boggling questions that we have to face in earnest, if peace and prosperity are to be maintained in the Far East.

To answer these questions, we need to go back to how China has risen to the current stature from a dirt poor country 30 years ago that is the victim of a Soviet-style planned economy, and the most disastrous social engineering movement in recent human history. The last 30 years in China represent, undoubtedly, the largest economic miracle since industrialization.

But we also have to candidly admit that this miracle is impossible without China's accession to the WTO, without America's open embrace of China to open its market, and without corporate America's pouring billions and billions of FDI into the China market. We are extremely lucky that China's open-door policy corresponded remarkably well, timing-wise, with corporate America's off-shoring movement. China's economic rise on the global stage is essentially a triumphant story of today's vast network of global value chains that decidedly characterize the current trade pattern. China's participation in this expanding network not only benefits itself, but all stakeholders participating in it.

A quick review of this segment of the history points to an obvious fact, a fact that says America's and China's economies are fundamentally intertwined, and fundamentally complementary toward each other in nature. Corporate America's operations in China represent a \$300-\$500 billion commercial interest. About 50% of China's exports are associated with these foreign multinationals. The majority of the top-twenty list of the largest exporters in China is either OEMs of corporate America or corporate America itself.

Our two countries' economies are complimentary because of god-blessed natural and human resource endowments respectively. America's agricultural products are highly competitive on global markets, and so is its high end of the high-tech sectors. China's efficient manufacturing sectors contribute to the low prices in Wal-Mart and on Amazon.com. Adding goods and services together, the trade flow across the Pacific represents a close to \$800 billion commercial interest. That is a lot of money. Only 18 economies in the world have a GDP size larger than that. And Turkey comes to number 17th. This tremendous \$800 billion commercial interest is the fundamental bedrock of a peaceful relationship between our two countries.

In international relations there is something called the Thucydides trap, which says when a rising power threatens to displace an incumbent one, the most likely outcome is war. Twelve of sixteen cases in which this occurred in the past 500 years ended violently in bloodshed. But today's Sino-US relations face a Thucydides trap that is totally different from historic ones due to these very intertwining and complimentary economic attributes. That doesn't mean it doesn't have its fair share of problems and frictions. That doesn't mean that we can just easily weather through these tough times without effort and peaceful negotiations. But fundamentally this is a different type of

Thucydides trap that we are trying to escape. I call it the economic Thucydides trap.

Honestly I believe, China and the US, situated an ocean apart, do not have deep national security conflicts, maybe barring the Taiwan issue. Even Taiwan's strategic importance to the US geopolitics game is probably waning over time as modern military technologies render it less and less relevant. On the contrary, I see potential frictions and conflicts more likely to arise from the economic Thucydides trap that, if not addressed properly and carefully by both sides, could potentially lead to a real Thucydides trap that will wreak havoc on our future.

The hope of escaping the economic Thucydides trap is still there. The hope of a peaceful and harmonious co-existence of corporate China and corporate America is still there. The answer is very simple. The planet is a large enough place to accommodate two giants at the same time, as long as each side is recognizant and considerate of the other side's needs and interests. There are several areas that I can think of in this aspect.

First, the two sides need to talk, and to talk in earnest. The Trump style of bluffing and trade war rhetoric may work as a private company in the real estate business, but bodes awfully ill for relations among nations. It politicizes an economic issue on both sides and constraints the administrations' policy space. It damages trust on both sides, making negotiations more difficult. It causes carnage on the financial markets, introducing unnecessary risks to economic growth.

I agree with Washington that a sole multilateral system is not enough for resolving issues between China and the US, but I am also vehemently opposed to dispensing with the entirety of it. Granted, the WTO framework represents the minimal standards for global trade governance, and many of the issues between China and the US go well beyond that. I concur that it is extremely difficult and time-consuming to push these Sino-US-specific agendas through the multi-lateral WTO venue, and they really don't have to. What we need is a combination of multi-lateral frameworks like the WTO and bilateral quasi-treaty-like agreements on trade and investment as a complement. China and the US don't have to be engaged in many years of negotiations for a decades-long FTA and BIT. We could sign things as we move forward in a phased approach and bypass the legislative labyrinth on Capitol Hill. We can work on something concrete, short-term and easy to implement, in the direction of incrementally resolving trade and investment frictions one at a time.

Second, corporate China and corporate America can also cooperate while competing. In some instances, why not merge or align them together to seek joint interests on global markets? In the automobile industry, we have seen the success of the Renault-Nissan alliance. Why this model can't be tried in China? Some may question this model from an ideological perspective in pointing out the mass dominance of China's SOE behemoths in certain sectors.

Let me point out the cordial relationship between GM and Shanghai Automotive Industry Corporation, abbreviated as SAIC. They have a successful joint venture based in Shanghai going back decades. Today, GM sells more cars in China than in the US. During the 2008 financial crisis, SAIC extended a helping hand to help GM weather through its hard time. Today the two companies cooperate extensively on global markets, even in areas of R&D and innovation. GM's next generation small

turbo combustion engines are jointly developed together with SAIC. Such a close relationship, in my opinion, should evolve to a potential level that they jointly become one. You call this wonderful company an American company? Or you call it a Chinese company? It doesn't matter. I would call it a global company, in an age of globalization.

China could also benefit from being selective in its industrial policy objectives. Industrial policy is controversial in the economic academic community. But we also have to candidly concede that America has its own fair share of industrial policy no different from China's. For example, the US has the DARPA program, its world-renowned national laboratories under the Department of Energy, and the many grants from the National Science Foundation programs. What China differs from the US may be in scale but not in substance.

Having said that, I think it doesn't hurt China's interests in focusing on a policy objective of excelling in select areas as opposed to being mediocre on all things. For example, the US prides in Boeing airplanes, while China prides in high speed railway. Some Washington think tank accuses China for being innovation autarky. But if an autarkical approach is to be avoided, strategic trust needs to be established between the two sides for the long term. And in this regard, the recent decision of the US Department of Commerce against China's ZTE, the world's fourth largest telecom equipment company, serves as a horrible example.

ZTE has its problems. It did violate US sanctions against Iran, but only prior to March, 2017 when ZTE entered into an agreement with the US government to resolve all the issues. But since then, the US Department of Commerce's action is more like a part of the trade war. By cutting off supply of US-made IC chips and components to ZTE, its intention is clearly to wipe ZTE off the face of the earth. It is one thing to penalize a company that has made a mistake, but quite another to intend to kill it. No company in the world deserves capital punishment even for things as bad as misleading, lying or cover-up of wrongdoings.

It is this type of actions that totally destroys the trust between our two countries. How can you blame China for being innovation autarkical, if things like ZTE are coming from Washington? How can you cajole the Chinese government to trade corporate China's technological prowess, while cutting off its lifeline?

Another dimension of escaping the economic Thucydides trap is along the geographic dimension. Corporate America doesn't go to Africa. Corporate America is limited in presence in South America and Southeast Asia. Its strength is in Europe and the North America. That is fine. I always advise corporate China executives to go to Africa, to go to South America, and to those places where there are more opportunities than competition. By a friendly division of the global market, I think corporate China and corporate America can both thrive on their own.

Now I have talked a lot about China and the US today. Finally let me briefly say a few words about what Turkey can do in this broad global competitive landscape I have just delineated. First, I think it is in Turkey's interest to uphold the multilateral banner in international governance. What Donald Trump means by bilateralism and what America First truly stands for, is a hub-and-spoke system

where America sits in the hub. This is obviously not in the interests of all those sitting as a spoke. You lose bargaining power and are likely to be subject to economic bullying.

Second, Turkey can play a more active and constructive role in China's Belt-and-Road Initiative (BRI). The BRI essentially represents Chinese government's help with corporate China's expansion into the kind of new markets I just talked about. It presents many more opportunities for seeking common interests for both China and the host countries, and for that matter, all those parties participating. Turkish companies are fairly competitive in certain fields. In Djibouti for example, I know Turkish companies are actively involved in the China-led port project there. This is something that can be developed in other places as well.

In the interest of time, I am going to stop here. Thank you very much.