On the first day of his recent visit to Beijing, President Donald Trump was treated to Peking opera. A common element in many such shows is moments when characters run about the stage wildly banging gongs to draw the audience’s attention, even though nothing of substance is occurring. And so went the US president’s summit with China’s Xi Jinping on economic and trade issues, a perfunctory display meant only to give the impression of serious engagement and achievement.

Some American observers believe Xi won this affair on both style and substance. The two sides inked US$250 billion in deals, and Trump appeared to let Xi off the hook for China’s persistently large trade surplus with the US, when he placed the blame instead on America’s previous weak-kneed leaders.

There was widespread relief among Chinese businesspeople and officials I met this past week. They almost uniformly believe that the commercial agreements and personal camaraderie mean the relationship has been stabilised: thanks to the emergence of Trump’s true self as a deal maker, the education he has received from the American political and business establishment, and China’s own beneficent patience.

Nothing could be further from the truth. My sense is that we are on the cusp of a new American strategy in which Washington replaces dialogue and multilateralism with extended unilateral pressure.

This U-turn was possibly solidified in July, when the latest round of high-level bilateral dialogue failed to yield anything of value.

Since then, the Trump administration has been moving systematically to put the regulatory pieces in place so that it can credibly threaten China with limits on its exports, investment and other elements of the relationship.

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These tools were simply not ready by the time Trump descended from Air Force One in Beijing, and so out came the gongs to distract the world audience. And Trump would certainly feel within his rights to pocket these deals without giving China any reassurances, since that is the administration’s view of how China plays ball.

That is the only rational way to explain what did and did not happen in Beijing. A careful perusal of the list of deals shows not a single one is in a sector previously closed off to American business. Apparently, some deals that would have paved new ground were vetoed for inclusion in the signing ceremony.

When a Chinese official announced that China had loosened investment restrictions in its financial sector, which the US had been seeking for over a decade, Trump had already jetted off and did not even send a stand-in from the embassy or a thank-you note.

Any recognition of progress would have undercut the rationale for the fight he wants to launch.

There is a new Washington consensus: China plays unfair, and its unbridled industrial policy is dangerous for China’s trading partners, global supply chains and business models built on fair competition.

Although the Obama administration’s rules-based approach did not tame China Inc, a high-handed, unilateralist approach could be even more damaging to American interests and the global economy.

The Trump administration comes to this contest with far less leverage than it could have done. Critically, the US is going it alone. South Korea, Japan, Germany and others all suffer from Chinese mercantilism, but because the US is also attacking them for their own apparent economic misdeeds instead of assembling allies, none is going to applaud the US if it announces unilateral penalties, let alone enact their own parallel measures.

Always wary of a trade war that would compel a choice between Beijing and Washington, their reticence was magnified when the US left many of them at the altar by withdrawing from the Trans-Pacific Partnership (TPP), an arrangement that would genuinely turn the

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Podcasts

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LISTEN ChinaEconTalk: Scott Kennedy on Innovation in China (September 20, 2017)
tables on Beijing, particularly if Washington were a party to it.

Last week, a Chinese official asked me if the US might reconsider and return to the TPP. When I shook my head, she let out a sigh of relief, explaining that the costs from any unilateral US penalties would be nothing compared to the challenge China would have faced in adapting to a TPP that included America.

Just as importantly, America is preparing for battle with China at just the moment when the differences in political standing of their two leaders could not be more stark.

The US president continually finds himself under attack, and the chances of bipartisan consensus on any national challenge seem less likely by the day.

By contrast, President Xi has fully consolidated his grip on power and is pursuing a grand vision, both domestically and globally. Although one might think this would be the perfect time for the US to press Xi, as his unquestioned authority gives the Chinese leader the space to make concessions, his sense of confidence and belief that the United States is on the decline may instead lead him to dig in his heels, or perhaps even conclude that China could win an extended trade war and forever shield the Chinese system from further external attacks.

The sounds from the gongs of Beijing have faded, but if Washington does not pursue its case against Chinese trade practices with greater dexterity and care, the administration may soon hear ringing more akin to the American TV programme, The Gong Show, where judges dishonourably dismiss poor performers with the banging of a giant gong.

Such ignominy would be far more damaging than the noises emanating from any theatrical performance, American or Chinese.

In the News

“General Secretary Xi probably has a much better understanding of Trump than vice versa.”
—Scott Kennedy in Bloomberg Markets, “U.S.-China Trade Ties to Get Tougher Before They Get Better: Q&A”

“Washington has been struggling for a long time about what is the best way to get China to adapt and change, what would work and what would also preserve the system, the global trading system that we have.”
—Scott Kennedy in the South China Morning Post, “Beijing, Washington move closer to trade war as Donald Trump-led investigations target China”

“[Xi]’s taking Deng Xiaoping’s formulation of socialism with Chinese characteristics, but adapting it to his own perception—that there’s this new era—and that helps him ... erase his two immediate predecessors, Jiang Zemin and Hu Jintao, from political history... Because he’s effectively saying there are three eras in modern Chinese history: the Mao era, the Deng era, and now the Xi Jinping era.”
—Christopher K. Johnson in The Atlantic, “China’s Xi Jinping Era”

“Xi has seemingly chosen magnanimity with the list...Of course, that’s easy to do when you’ve achieved your two core objectives — making yourself the party’s untenured ideological arbiter and refraining from signaling the succession.”

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Recent Publications

The Leaderboard: Sun Chunlan, cogitASIA Staff, CSIS CogitAsia, November 28, 2017.

The US is preparing for a trade war with China — don’t be fooled by the noise, Scott Kennedy, South China Morning Post, November 21, 2017.

Trump Goes to China, Scott Kennedy and others, ChinaFile, November 2, 2017.


China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, Scott Kennedy, Testimony to the Section 301 Committee led by the US Trade Representative regarding China’s practices regarding intellectual property, October 10, 2017.

Will Dockless Share Bikes, a Chinese Innovation, be Successful in D.C.?, Mingda Qiu, CSIS CogitAsia, October 6, 2017.

Prospects for U.S.-Taiwan FTA Following $3 Billion Agricultural Deal, Maria Krol Sinclair, CSIS CogitAsia, October 5, 2017.
