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Time running out to end U.S. - China trade war

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The world watches on as China's rise and controversial trade practices trigger a U.S. reaction

The U.S. has viewed China's rapid development into the world's second largest economy as less than benign. Therefore, it unilaterally raised tariffs on Chinese goods to force China to alter its trade practices, believing its position as the world's strongest economy would allow it to set the terms of trade. However, trade negotiations with China grew contentious and threatened to derail global economic growth as both countries imposed escalating tariffs on the other.

The trade dispute escalated into a disagreement over technology. The US flagged the Chinese firm Huawei as a national security threat, alleging that Beijing could spy on countries installing telecommunication equipment from the Chinese maker. Again, China threatened to retaliate in kind.

The feud between the two largest economies has affected the rest of the world. The use of tariffs by the U.S. as a foreign policy tool has led to the unwinding of globalisation. The resulting China growth slowdown has led to less demand for imports from other trading partners. Worse still, the prolonged impasse created the spectre of a new economic cold war era, creating a bifurcated world in which the U.S. coalition and China's trading bloc operate incompatible technologies.

Editors from The Wall Street Journal (WSJ) visited Singapore Management University for a breakfast dialogue organised by [SMU Libraries](#). The discussion focused on the rise of China and the consequences of the U.S.-China trade relations on the rest of the world.

CHINA RISING

China sustained high growth rates since implementing market reforms (改革开放) in 1978 and freed 850 million of its citizens from poverty.^[1] China utilised its huge domestic market and economies of scale to provide the world with low cost manufacturing. Even as China became a bona fide economic juggernaut, Beijing is currently focused on dealing with internal challenges than usurping the U.S. as a global hegemon. **Charles Hutzler**, China Bureau Chief at WSJ, suggests that their internal economic model has to change to avoid the middle-income trap.

"They're not in this sweet spot anymore of a large and growing young workforce, and they're ageing very quickly," he elaborates while pointing out the country's need to create a more innovative society and develop a more consumer-driven economy. "They have an economic model that has worked for them for the past 20, 30 years, which is heavily dependent on state investment. On the one hand, as the government is talking about changing to a consumer-driven model, it is also doubling down on the influence, within the economy, of state enterprises.

"Private sector investment has been low; it's a trend that's been happening for a decade. Colloquially, the Chinese refer to it as 'the state advances and the people retreat (国进民退).'"

Despite government intervention stifling innovation and a possible debt crisis on the horizon, perhaps China's biggest issue concerns the issue of Hong Kong. **Andrew Dowell**, Asia Editor at WSJ, feels the problem could linger.

"Unquestionably economic factors are something that concern people in Hong Kong," Dowell says. "However, it feels to me that it's much more a question of identity and political autonomy. [Young] Hong Kongers see themselves as distinct from China." **Yumiko Ono**, Asia Digital Editor at WSJ, adds: "People thought that after 1997 there was supposed to be a high degree of autonomy under 'One Country, Two Systems' (一国两制), but at the halfway mark, there are more and more signs that China is taking more and more control."

SUPERPOWER RELATIONS

In 2018, in bilateral trade with the U.S., [China exported US\\$539 million worth of goods while its imports were worth only \\$120 million](#). **Michael Bird**, Columnist at WSJ, said trade balance is not necessarily a desirable outcome:

“In a reasonable trading system where people play by the same rules, some countries, like China, are going to invest more than others. The difficulty comes not from the imbalance in and of itself, but from what’s generating it.

“For example, Chinese imports are low because the Chinese government is making it difficult to sell into China or is incentivising people to export, unfairly advantaging its own exports over someone else. The trade imbalance is usually a symbol or something else going on, rather than being wrong itself.”

America has also raised the issue of the Chinese government's ability to use Huawei's position as the leader in 5G technology to abet government espionage. Despite vociferous efforts to fend off Huawei, the U.S. has had little success in getting its allies on board.

“The UK is plausibly the closest U.S. ally on foreign policy issues... and if you can't convince the UK not to use Huawei for its 5G networks, then you're not going to convince anyone,” Bird says, adding that American claims of European auto exports into the U.S. posing a security threat devalues similar claims over 5G networks.

Dowell offers an alternative viewpoint. He elaborates: “In the U.S. we see that China is a threat, that the Chinese government might have backdoors into the equipment. But if you are from outside the U.S. and have no preconceptions to deal with, you got the fact that AT&T has a room in its headquarters for the NSA.”

“All these internet companies that lay cables across the sea have to sign contracts that say the NSA gets listening posts there. The backdoor is built in to the U.S. telecom system and U.S. intelligence agencies make active use of it.”

In this political climate, other countries have been less willing to cooperate with one another. Hutzler shares: “If you look at the issues around data protection and data localisation, the walls are going up around the world. We are probably going to be moving into a less free and more restricted era, both from the research standpoint and from the product application standpoint.”

Despite the public shows of strength from the U.S. and China, there remains hope that a trade deal can be reached. A proposal that allows China to save face could allow them to acquiesce to U.S. demands. Several countries have advocated a multilateral approach to accommodate China's evolution into a developed nation. But if political wills continue to harden, the world may have to get used to a forever trade war.

Charles Hutzler, Andrew Dowell, Yumiko Ono, and Michael Bird were panelists in the SMU Libraries event "Breakfast with WSJ Editors" on 18 September, 2019. Gordon Perchthold, Associate Professor of Strategic Management at SMU, was the moderator.

[1] The World Bank Website, The World Bank in China, April 8, 2019, <https://www.worldbank.org/en/country/china/overview>, accessed September 2019.

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