

The 23rd New Buds Salon

Analysis of gains and losses amid China-US trade friction

September 13, 2020

The China-US trade friction that has lasted for almost two years has recently ushered in a favorable turn as representatives from both sides have reached an agreement on creating favorable conditions to further promote the implementation of the first-phase economic and trade agreement between China and the US. However, whether the agreement can be successfully implemented remains uncertain due to the impacts from the continuous spread of the COVID-19 epidemic and the upcoming presidential election. China-US economic and trade relations still face severe challenges. What are the gains and losses for both sides amid the friction? How will the security of China-US economic and trade relations be guaranteed? The salon invited Yu Miaojie, a Boya distinguished professor of Peking University, who is also a Chang Jiang Scholar of the Ministry of Education, to talk about the above questions from the perspectives of the dynamic evolution of China-US trade friction, understanding the friction based on the characteristics of China-US trade, and a quantitative analysis of the friction's impact on both countries' economy.

Prof. Yu pointed out that the Chinese economy is facing new challenges amid big changes. In the middle of this year, the CPC Central Committee Political Bureau set the tune at a work conference, stating that China is facing a major change unprecedented in a century and a once-in-a-century epidemic. The major change unseen in a century can be understood from

three aspects. One is that China-US friction evolved from a gradual expansion to an overall escalation. Another is that multilateral economic and trade cooperation is facing a crisis of stagnation. Still another is that the global value chain is at the risk of getting broken. From this basis, Prof. Yu started with an analysis of the global economy. The IMF has recently released three reports to predict the development trends of world economy, projecting that the world's economic output this year will decrease 4.9 percent compared with the same period of last year. Developed countries' output will decrease 8 percent, and emerging markets or developing countries output will fall 3 percent, with China as the only major global economy maintaining positive economic growth (although the growth rate is not high). From the perspective of world trade, the volume of global trade will shrink about 12 percent from last year. The trade volume of developed countries will decrease 13.4 percent, and developing countries 9.4 percent. According to foreign trade statistics in the first half of the year, China's trade volume decreased 3.2 percent, far lower than the global average. The data from the last two months also showed that China's foreign trade has performed well. Impacted by the epidemic, the global economy has shrunk about 5 percent over the first and second quarters. It is expected to recover to the average level from before the epidemic in the third and fourth quarters. Developed countries are facing a more severe decline. The economies of developing countries other than China are also shrinking. China's economic performance is better than the global average and its economy has started to recover since the second quarter. The US, EU and other countries and regions may not see their

economy recover until the fourth quarter of 2021.

I Dynamic evolution of China-US trade friction

China-US trade friction has gone through three phases, with five instances of imposing tariffs. The first round of tariff increases was a 25 percent tariff imposed by the US on products worth \$50 billion exported by China, imposed in two phases. The first phase was related to products worth \$34 billion, and took effect on July 6, 2018. The second phase on another \$16 billion worth of products took effect on August 23, 2018. The \$50 billion mainly involved 0.5 percent of China's manufacturing products. As a response, China counterpunched equally strong in scale by imposing the same rate (25 percent) of tariffs on \$50 billion in products exported from the US.

The second round of tariff increases started in September 2018 when the US released a \$200 billion tariff list that would impose a 10 percent tariff in September before raising it to 15 percent in January 2019. Thanks to a preliminary agreement reached by state leaders of China and the US at a meeting in Argentina in November 2018, the US did not immediately impose this 25 percent tariff. In this sense, the tariff increase scheduled for January 2019 was aborted, and it was not until May 10 that the US ultimately raised the tariff to 25 percent. Responding to the second round of tariff increases by the US on the \$200 billion in products, China changed its countermeasures. It maintained the same rate of tariff increases (5 percent to 10 percent) but on a different scale. The reason is that the US exported \$150 billion products to China while China exported \$500 billion to the US. Due to the different scale of exports,

China imposed a tariff increase to proportionately match. This means that \$200 billion in products accounted for 40 percent of the \$500 billion products the US imported from China. China imported \$150 billion products from the US and 40 percent of the \$150 billion is \$60 billion. Thus during the second round, China set countermeasures of \$60 billion. China also raised tariffs on some products to 25 percent in response to the US increasing the tariffs to 15 percent on May 12, 2019.

The third round of tariff increases started in September 2019 when the US decided to impose high tariffs on \$300 billion in products China exported to the US in two phases. The first phase was on September 1, 2019. It imposed 15 percent tariffs on \$162 billion in products. The second phase was on December 15. It imposed tariffs on \$112 billion in products. But due to an economic and trade agreement orally reached by the two sides on December 13, the tariff increase did not take effect. Targeting the first phase, China reacted with a 5 to 10 percent tariff on \$75 billion products. Since China imported \$150 billion products from the US but the above products were valued at \$185 billion, some products faced double tariffs.

How will the \$500 billion in products imported from China influence the American economy? The products imported from China are mainly classified as intermediate goods, capital goods and consumer goods. Consumer goods accounted for a low percentage of the \$50 billion products of the first round, so American citizens initially did not care whether Chinese products faced tariffs. Consumer goods accounted for 24 percent among the \$200 billion in products in the second round, and 40 percent of the \$300 billion in products. Commodity prices kept

rising, and the China-US friction began to have an increasing impact on people's daily life. The American public generally started to oppose the Trump administration's decision to impose tariffs on Chinese products.

How many of the Chinese products exported to the US unfairly faced tariffs? Statistics showed that in 1986 when China has not joined in WTO, 39.1 percent of the Chinese products exported to the US faced high tariffs. In 2017, when trade war had not started, 8 percent of China's products were unfairly hit with so-called anti-dumping, anti-subsidy and high tariffs. After the trade war started, the scale of the US tariff list was \$50 billion before September 2018, and \$200 billion in the second round in September. The total amount of \$250 billion accounted for 50.6 percent of all the Chinese exports to the US. That is, about half of China's exports to the US were unfairly treated. After the third round of tariffs, the proportion was even higher, with 68.5 percent unfairly treated. If the second-phase sanctions on December 15 were implemented, 96.8 percent of products China exports to the US would be affected by high tariffs. Fortunately, the two sides have reached a consensus on resolving trade friction, so only 68.5 percent of products are still subject to high tariffs. In other words, the signing of the first-phase China-US economic and trade agreement does not mean the end of the trade war. It just means that the China-US trade war has paused, because China's exports of \$370 billion products to the US are still affected by high tariffs, and so are American products exported to China.

As to why the \$300 billion tariff increase in the third round was divided into two phases, Prof. Yu pointed out that it is

because the peak time of consumer goods consumption and intermediate goods export demand are different. The peak time for product exports on September's products list is August, so, the Trump team sophisticatedly chose September to start the tariffs. If July and August were chosen instead, American domestic consumers would have definitely felt the price hike, which would be harmful for Trump. The peak time of product exports on the list of December 15 was October in 2016, October or November (the month Thanksgiving day is in) in 2017 and November in 2018. In this sense, the choice of the time was to avoid the shopping peak.

China and the US have had 13 rounds of negotiation and reached the first-phase trade deal. The first round of negotiation was initiated in February 2018. Vice Premier Liu He has been the representative of the Chinese side, but the US counterpart kept changing, from Treasury Secretary Steven Mnuchin to Commerce Secretary Wilbur Ross, and to Trade Representative Robert Lighthizer. Through 13 rounds of hard negotiation, China and the US reached the first phase of trade deal on December 13, 2019, with the agreement signed from January 13 to 15. The agreement that took effect on February 14 mainly included eight aspects as follows:

The agreement first highlighted that China will not impose tariffs on some products imported from the US after December 15. The US ends its tariffs on \$112 billion worth of products imported from China. Second, China promises to expand imports, but with two preconditions. One is that the imports should be expanded based on the volume in 2017. The other is that the total volume being expanded is \$200 billion -- \$76.7

billion in 2020 and \$123.3 in 2021. (The reason to choose the year 2017 as the base is that it is the year before the trade war happened and the year that China-US trade saw its peak volume). In addition, the agreement stressed the attribute of “market conduct.” The Chinese government does not disagree with Chinese enterprises expanding imports from the US. But if the US products are not up to par, Chinese enterprises can choose not to buy from the US due to “market conduct,” and this is not the responsibility of the Chinese government. Meanwhile, in the case of force majeure, such as the COVID-19 epidemic outbreak this year, China has the right to suspend the implementation of the agreement. Third, in terms of agriculture, China should increase the purchase of American food, agricultural products and marine products to a total of \$50 billion. Fourth, China must strengthen the protection of commercial secrets, geographic marks, trademarks, and fight against piracy. (Geographic marks are helpful in identifying products’ origin so as to correctly calculate their added value). Fifth, China’s technological transfers should be done using transparent, fair and just procedures. Sixth, China must expand access to banking, insurance, securities, and credit ratings. Seventh, China must avoid the competitive devaluation of the RMB. (Actually, the Chinese government has no incentive to devalue the RMB. Although devaluation usually benefits enterprise exports, from the perspective of national strategy, the export structure of Chinese products is very similar to that of Southeast Asian countries. The devaluation of the RMB means intruding on the market share of Southeast Asia, which will have an impact on the China-ASEAN Free Trade Area (CAFTA) and

the “One Belt and One Road” strategy. Eighth, both sides must strengthen bilateral consultations on the settlement mechanism of economic and trade disputes.

How high are the tariffs imposed on each other’s products by China and the US? According to statistics from March 2020, China imposed a 21.1 percent tariff on American products and the US a 19.3 percent on Chinese products. It seems that China was imposing a heavier burden on the US, but this is not the case because the level of tariffs needs to be compared with the tariff rate before the start of the trade war. Previously, Chinese products sold to the US only faced a 3.1 percent tariff, while American products sold to China faced an 8 percent tariff. According to WTO regulations, the standards of developed countries and developing countries are different. As a developed country, the US has low tariffs, while China as a developing country still has high tariffs. Comparing the increase in tariffs between the two sides, it can be found that the US has imposed higher tariffs during the trade war.

How has the first phase of trade agreement been implemented? According to statistics released by the US, China completed half of its procurement target in the first half of the year, without taking the severe blow of the epidemic as an excuse to downsize its procurement. Specifically, China increased imports by \$76.7 billion in 2020, including \$12.5 billion in agricultural products, \$18.5 billion in energy, \$12.8 billion in services, and \$32.9 billion in manufacturing industries. Economic and trade friction used to be the frontline of fluctuations in Sino-US relations, but in a sense, they have become the only domain for China-US cooperation. Economic

and trade relations were once officially called a “cornerstone.” However, more accurately speaking, it can be said that China-US economic and trade relations have become the “brake” that prevents the relations from deteriorating or “the only light in the darkness.”

The reason is that since the beginning of 2018, at least 22 measures could indicate the deterioration of China-US relations. The beginning of 2018 saw a “Section 301 investigation” which mainly targeted Chinese products related to intellectual property. A “Section 232 investigation” was launched toward China’s steel and iron industry ahead of the imposition of a tariff. “Anti-dumping, anti-subsidy and safeguard” actions led to extra duties on particular products. A “Section 337 investigation” and a “Section 301 investigation” led to no major actions. The US claimed several times that China is an exchange rate manipulator and engaged in four or five investigations. But these ended up with no result due to a lack of proof. In August 2019, the US directly identified China as an exchange rate manipulator and canceled the trade agreement that the US had already signed. Any Chinese exports to the US have to undergo a so-called national security investigation. This is understandable if products touch upon US national security. But the truth is that many investigations are nonsense. For instance, China’s Huiyuan juice group acquired a pork company of California and the US claimed that it endangered national security, which is ridiculous. Pressure from the US also includes export controls, economic sanctions, decoupling of the communications industry, and interference in China’s internal affairs. Other examples include the Foreign Corrupt Practices

Act proposed against China; litigation against China on the grounds of the epidemic; revoking China Telecom's license in the US; claiming China concept stocks have risk and naming them; criticizing the national security law for Hong Kong and expelling Chinese media; refusing to admit China's sovereignty and rights in the South China Sea; suppressing the business of TikTok in the US, and pushing its allies to ban Huawei. The US closed the Chinese Consulate General in Houston in August and its secretary of state thoroughly rejected the US strategy toward China over the past five decades in a speech at the Nixon Library. To sum up, the US suppression of China in recent years involves the fields of trade, finance, technology, health, and diplomacy among others, and China-US relations are constantly deteriorating.

II Understanding trade friction based on the characteristics of China-US trade

The Trump administration's consistent understanding of China-US economic and trade relations has not changed. He believes that a trade surplus is good, and a trade deficit is bad; the China-US bilateral trade imbalance is caused by Chinese subsidies or other unfair tariff policies; the solution to the bilateral trade imbalance can only be achieved by increasing the tariffs on Chinese exports to the US; China should not export high-tech products but should stay at the low end of the global value chain; and the US should maintain its monopoly on the high end of the global value chain. Most economists in the world, including American economists, disagree with Trump's first three views, but the fourth point may not only be held by

Trump. It is voiced by some others in the US that China should produce labor-intensive products and earn money from the low end of the manufacturing chain but not export high-tech products to grab market share from the US. This indicates that the US has defined China as a strategic competitor.

Prof. Yu pointed out that it is necessary to understand the state of the global value chain before analyzing the above views. Take the iPad as an example of the global value chain. Every chip in the motherboard of the first generation of iPad was produced by different countries. Only the research and development happened in the Global North, while manufacturing and assembling happened in the Global South. Another example is the Boeing 787 passenger plane. Each of its parts were produced by different countries, but all participants are developed countries or economies, without any developing countries. It can be seen that the production of large planes — which represents high technology — is monopolized by developed countries.

Prof. Yu expressed his view that neither of Trump's four views about China-US trade can stand up to scrutiny. First, the US bilateral trade deficit is not necessarily a bad thing, and China's big trade surplus is not necessarily a good thing. The trade deficit means that the US is financed by China. In 2016, China's trade surplus was \$250 billion, in 2017 it was \$275 billion, in 2018 it was \$300 billion, and in 2019 it was almost \$300 billion. For the US, the trade deficit means that Chinese goods are sold to the US, and Chinese companies profit from the US and get the above-mentioned money back. But the problem is that the money taken back is only useful after Chinese

companies use it for investment, and a large number of Chinese companies actually use these dollars to buy US treasury bonds. Statistics show that China basically spends 35 to 40 percent of its foreign exchange reserves to purchase US treasury bonds each year. At the same time, US treasury bonds purchased by China accounted for 5 to 8 percent of the total US treasury bonds, and US treasury bonds held by Chinese investors accounted for about a quarter of US treasury bonds held by foreign investors. So, the dollars earned by Chinese companies by selling products to the US was used to invest in the development of the US.

The trade deficit is not necessarily a good thing for China. Before the reform and opening-up, getting moderate foreign exchange reserves was very important to China, which had no foreign exchange reserves.

But now, there are two problems with the existing \$3 trillion in foreign exchange reserves. One is the pressure to maintain and increase their value. At present, the best investment opportunity outside of China is in the US. Second, an excessive trade surplus will lead to imported inflation, explained below. China's one-year trade surplus with the US is now \$300 billion. The People's Bank of China stipulates that companies must sell to it half of this \$300 billion. According to the exchange rate, it means the People's Bank of China will give companies about one trillion yuan, and the companies will deposit it in the bank. The bank then will lend out about 80 percent, and the borrowers will again deposit it in the bank which will trigger a further release of loans. After several rounds of circulation, the original one trillion yuan will become 5

trillion yuan circulating in the market. At the same time, since the number of products in the market has not changed, too much money chasing the same number of products will cause inflation. This is the so-called imported inflation. China's GDP in 2019 is about 100 trillion yuan, and the money supply M2 is 2 percent, so the inflation rate will increase by 2.5 percent. Thanks to the continuous hedging of fiscal policy, the annual inflation rate has not increased this rapidly.

Second, the imbalance in Sino-US bilateral trade is caused by the comparative advantages of the two countries' differences in factor endowments. Trump believes that high tariffs are the cause of trade imbalances, so after signing a trade agreement to achieve zero tariffs, zero subsidies, and zero barriers, will China not have a trade surplus? It can be seen that even if affected by the epidemic, the trade surplus in 2020 is still substantial, which is determined by the comparative advantages of the two countries. Take labor-intensive products for instance. The average monthly salary of blue-collar workers in China is \$750, while in the US it is \$4,200. However, China's total factor productivity is 45 percent of that of the US, so China's labor-intensive products have an obvious comparative advantage. The characteristic of trade in processing is that both imports and exports are in foreign countries. China also exports a large number of capital-intensive products. During the golden period from 1994 to 2007, processing trade accounted for more than 50 percent of China's exports. It has declined but still accounts for about one-third of total exports, a large absolute amount.

In addition, the claim of Trump that China imposes high

tariffs is wrong. China's tariffs were relatively high before its accession to the WTO. But after its accession, China has followed WTO regulations, and so far, the average tariff has dropped to 7.5 percent, and the weighted average is 4.4 percent. Japan, the US, and the EU are at around 2-3 percent, but they are developed countries. Compared with Indonesia's 6.8 percent and India's 7.6 percent, China's 4.4 percent is the lowest among developing countries, and even lower than South Korea's 9 percent among developed countries. Trump also claimed that China has adopted a lot of subsidy policies to encourage export. But the US also has many such policies. There are three dimensions to explain it. The first dimension is policies that existed in the past but are now cancelled. For example, the Harley-Davidson Motor Company almost went bankrupt during the US-Japan trade war in the 1980s. The US directly adopted high tariff measures for protection and imposed high tariffs on imported Suzuki and Yamaha motorcycles. With Japanese motorcycles unable to enter the US market, Harley-Davidson was able to survive. The second dimension is policies already in place. For example, sugar from South America or other regions has difficulty entering the US market. The third dimension is that in response to China's counter-tariffs, Trump gave farmers \$28 billion in export subsidies, which is a brand-new policy.

Third, economic and trade cooperation is the right way to solve the bilateral trade imbalance. It is unreasonable that Trump took imposing high tariffs on Chinese products as a solution, because if any sovereign country imposes high tariffs on another, the other will take countermeasures in response. Is Trump going back to the Obama era? In fact, although the goals

are the same, Trump is more selfish and always claimed America first, while Obama only demanded the US to double its exports to China within five years. China's answer to settling the friction is to have the US refrain from imposing high tariffs, and China to expand its imports. This solution can increase the US trade surplus with China, and Chinese products and enterprise would not be impacted. In this sense, it can be seen that Trump covets more benefits, but China does not. Instead, China wants to enlarge the benefits for both sides together with the US by expanding its imports, and expects the US not to impose high tariffs.

Last but not least, it is a standard historical nihilistic view to want to keep China at the low end of the global value chain. Has the US always been at the high end of this chain? Of course not. The US replaced the UK to become the largest industrial country in the world in 1894 and did not reach the high end of the global value chain until after World War II. Moreover, China cannot always stay at the low end of the labor force. China's labor costs have risen significantly, the demographic dividend has shrunk, and the comparative advantage of labor-intensive products has declined. At the same time, there is no need for China to remain at the low end of the value chain because the quality of Chinese exports has kept improving.

Will China's status in the global value chain be impacted or replaced due to friction with the US or by the epidemic? The answer is no. In fact, China's status will be consolidated. A topological map of global trade before China's joining the WTO shows that the global value chain mainly consisted of the EU with Germany as the core, North America with the US as the

center, and the Asia-Pacific region. The US was linked with China through Japan and South Korea. But now the situation has undergone profound changes, and is best represented by a tripod. Europe is still centered on Germany and the Americas are still centered on the US. However, America's main trading partners are Mexico and Canada, and trade with other countries is small in scale. An Asia-Pacific economic and trade system centered on China has been formed. The US, China, and Germany have been intertwined. This all constitutes a structure with three obvious centers.

How do you remake a global value chain, with China as a center? First, increase the added value of domestic products. A decline in China's trade share is not a bad thing, indicating that the added value of domestic products is constantly increasing. Second, develop a digitally-oriented and knowledge-intensive global value chain. It does not mean technology-oriented or technology-intensive, because our technology alone cannot be compared with the US or Germany. However, in the field of the digital economy, due to China basically starting at the same time as the US and Germany, at similar development levels, it was easier for China to overtake them.

Currently, the core of globalization has not changed, but is confronting new challenges. One is "America first" and the rise of deglobalization forces. Another is that the multilateral cooperation mechanisms centered on the WTO have been continuously damaged. The WTO has a dispute settlement mechanism. If two member states have disputes on certain products, they can resort to the dispute settlement committee, which is obliged to make a ruling within 18 months. If one

country's conduct is judged to be unreasonable, the other can impose high tariffs. The mechanism was originally good and effective. However, the US believed its interests were damaged, and thus blocked the judges of the committee from taking office, which has almost led to the organization's shutdown.

The regionalization of production and the globalization of trade have not been fundamentally changed due to Trump's protectionism. At the same time, although the WTO has a difficult role to play, the world has given way to regions, so that the multilateral mechanisms for regional economic and trade cooperation are constantly being strengthened. One is the US-Canada-Mexico free trade area headed by the US, and another is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) led by Japan. There are two mechanisms that are very important to China. One is the Regional Comprehensive Economic Partnership (RCEP), a trade deal negotiated between 16 countries, comprising the 10 ASEAN members and Australia, China, Korea, Japan, and New Zealand. India was originally included, but because it is dominated by China, and India is worried that Chinese products will seize the Indian market after tariffs are removed, it is reluctant to join this mechanism. The second is the "Belt and Road," especially the 21st Century Maritime Silk Road, which has some overlap with RCEP.

III Quantitative analysis of the trade friction's impact on both countries' economies

First, if the US imposed 45 percent tariffs on Chinese products, what impacts will it bring to the Chinese and

American economies? If the US imposes full-scale tariffs on Chinese products, and trade barriers (including tariffs and non-tariffs) reach 45 percent, the result will depend on China's response. There could be four situations but Prof. Yu focused on two of them. First, the US imposes a high tariff of 45 percent on all Chinese products, and China counters it equally. According to the results of a large number of data simulations of 62 countries around the world, two countries would suffer the most. The first is the US and then China. The damage to the US is easy to understand. The reason for the damage to China is that its products cannot be exported to the US due to high tariffs, so employment in the export sector is affected. If China takes countermeasures against high US tariffs, the rejection of US imports will lead to rising prices of domestic products. Therefore, both China and the US will suffer. But China has better choices. For example, after countering the US on the same scale and at the same proportions, it can expand its market openings to other export trading partners, especially the EU. After recalculating the model, the US still suffers most among the 62 countries, with its GDP falling by 0.6 percent. China ranks in the middle among the 62 countries and will have some losses, but not as serious as in the first situation. Countries such as Singapore will benefit. This shows that the best way for China to deal with the trade war with the US is to take equal countermeasures and expand opportunities in other countries. This is in line with the building of a new pattern of all-round opening-up, which is the current policy.

Second, what has been the effect of China's three rounds of tariffs imposed on US products? From the beginning of the trade

war in 2018 to the end of 2019, China has launched three rounds of tariffs, targeting products with relatively high import volume. There are two main findings. First, China's tariffs have led to a decline in imports from the US. The specific amount is that every one percent increase in tariffs will result in a 0.5 percent drop in import volume. As China's tariffs were raised from 8 percent to 20 percent, China's total imports from the US fell by 6 percent. Second, since imports from the US to China are basically intermediate products which need a large amount of processing by China, China's exports to the US have also declined. This has led to other chain reactions.

Third, how does the China-US trade war impact the services trade including higher education? Since China joined WTO, its exports increased dramatically. Enterprises have made profits and people's livelihood has improved, so more students have got the opportunity to study overseas. This indicates that some capital earned by China from the trade surplus has been used to buy US higher education. In other words, it caused China's services trade deficit. China, compared with other countries, has a huge number of students studying in the US. The increase of students studying in the US has a positive correlation with trade liberalization. Research shows that the US-China trade war in recent years has caused the US a loss of about \$1.15 billion in income from tuition.

Prof. Yu pointed out that he has made many predictions on the China-US trade war, which have proved to be correct. For instance, as he predicted, the US imposed tariffs on \$200 billion Chinese products in August 2018 but did not impose tariffs on the remaining \$300 billion in products, because \$50 billion is

too small a number but \$500 billion represents too high a risk. Therefore, the US progressed step by step.

Second, the RMB exchange rate against the US dollar fell to around 7 in September 2018. When most economists opined that the RMB would continue depreciating, he insisted that it will appreciate and would not break 7. The reason is that although RMB depreciation is beneficial to Chinese exports in the short term, the losses outweigh the gains, and it will have an impact on relations with other countries. Out of political considerations, the People's Bank of China would choose to appreciate the RMB. Third, it was proposed at the beginning of 2019 that after the US and China completed a 90-day truce, the truce would continue. However, the US was engaged in negotiations at the end of March and canceled the high tariffs in May. He then predicted that the leaders of China and the US would meet again at the G20 Osaka Summit in Japan in June 2019 and the US would impose tariffs on the remaining \$300 billion in Chinese products, but the tariffs would not last for a long time. In December 2019, he predicted that the Sino-US economic and trade agreement will be completed within two weeks because Trump chose to impose a high tariff on the \$300 billion in Chinese products on December 15. With Christmas approaching, the public would all go shopping, and the price hike would definitely lead to dissatisfaction with Trump, which would impact the presidential election. In addition, after the Russiagate incident happened, Trump needed to reach a trade agreement with China to divert attention.

Prof. Yu later pointed out that starting from December 15, 2019, the RMB exchange rate against the US dollar will rise to

6.8 within three months, because the agreement benefits the US, but also especially benefits China. Based on the domestic export data from January to February this year, he pointed out that from March onwards, China's exports will improve, and this year's trade surplus is expected to reach more than 2.5 trillion yuan. This is because China's exports are constantly improving, and it is not urgent to sell export-oriented products on the domestic market. The trade surplus in the first half of the year was 1.2 trillion yuan. Due to the rebounding shopping demand in the second half of the year, trade will increase compared to the first half of the year. In this sense, he made the prediction of a 2.5 trillion yuan trade surplus.

Regarding the direction of China-US relations, Prof. Yu believes that, first, the RMB will appreciate in the long run before the US general election because Trump has recently "scripted" a lot, but the People's Bank of China has not. Second, the friction between China and the US will inevitably intensify because the US clearly regards China as a strategic competitor. Academia originally thought that Sino-US relations would become the most fiercely competitive in 2026 or 2027, but this situation may appear earlier due to the emergence of the epidemic. The US business community seeks to maximize profits and hopes to develop good relations with China. However, since Sino-US economic and trade relations have risen to a national strategic position, commercial interests can only serve national strategies. China hopes for win-win cooperation, but at least from the perspective of the US, a "new cold war" has begun. The CPC Central Committee Political Bureau meeting at the end of July made it clear that peace and development are still

the themes of the times. Therefore, China should respond with determination, rationality, advantage, and restraint, and know that a “struggle for peace will lead to peace.” The current Sino-US relationship can be summarized as “long-term competition, limited cooperation, and striving for coexistence.” Since the US has defined China as a strategic competitor, China has to face up to this label. But at the same time, China and the US need cooperation in many aspects. Therefore, the goal is to “strive for coexistence.” In addition, the heads of state of China and the US may meet at the G20 summit on December 21 this year, which will be a positive turning point for China-US relations.

Prof. Yu concluded that after Trump took office, China-US economic and trade frictions have continuously escalated. If a full-scale trade war is launched, it will have a more obvious negative impact on the US. China’s best response is to expand its opening-up, maintain strategic determination and do its own things well.

During the Q&A session, Prof. Yu exchanged ideas with the audience on topics mentioned in his presentation.

Prof. Qian: China-US friction harms both sides. But the US may not have much of an upper hand in the confrontation, and China may not suffer much. My question is: Does the US feel that it could not get many benefits in the economic and trade field, so it is starting to shift its battlefield to other areas, such as diplomacy, politics, the military, or to Hong Kong, Macao, Taiwan and China’s neighboring countries?

Prof. Yu: Indeed so. In the process of China-US economic and trade frictions, the US finally concluded that it could not get

many benefits. The basic conclusion of many American economists based on their studies is that the US will suffer more serious losses than China. In fact, the US long ago hoped to expand its battlefield from trade to finance, technology and others. But because China has adopted the correct response measures, the disputes in 2018 and 2019 are basically contained in the trade field. Now that China and the US have signed the first-phase economic and trade agreement, the trade dispute can be basically paused, so the US is trying to expand the battlefield to other areas. But seen the other way around, it is also very interesting. After China and the US sign the agreement, trade will become a positive aspect of the relationship between the two countries.

Audience: In many talks between China and the US, the US clearly required China to carry out deep-level structural reforms. What is the meaning of this term? There seems to be no authoritative explanation for it.

Prof. Yu: If it is in the economic and trade field, the US has expressed sufficiently its meaning of “structural.” It not only refers to imports and market access, but also other related content. The Chinese attitude toward it has been relatively open, thinking it can be done, and China has been doing it — such as strengthening the protection of intellectual property rights. Chinese leaders made such a decision at the Boao Forum in April 2018. At the same time, structural reforms are not only aimed at China. We require the US to make corresponding structural reforms, which are also reflected in economic and trade agreements.

Audience: Some scholars have proposed that China and the

US should gradually construct, learn and adapt to new rules of bilateral interaction in a new era of the development of bilateral relations. Even Pompeo expressed in his speech that he did not want the “pan-politicization” of China-US relations, while hoping that political differences would not be extended to cooperation in other fields. Will China respond to the above-mentioned proposals? Is such a policy in line with China’s long-term interests and is it feasible?

Prof. Yu: We have to make a basic judgment on Sino-US relations. The situation now can be described as “the tree desires tranquility but the wind does not stop.” Trump’s or Pompeo’s speeches may not reflect their true intentions due to specific circumstances. Important documents can better reflect their views. There are some documents from the US that are open to the public. I suggest you look at a few documents, such as “The US Strategic Approach to the People’s Republic of China.” Any illusions should be discarded after reading it, because their conspiracy is flagrant. China needs to respond appropriately on the basis of striving for good Sino-US relations.

Prof. Qian: Prof. Graham Allison of the Harvard Kennedy School of Government proposed the concept of the “Thucydides Trap,” of which the starting point is that China challenges the US, so the US, which is passive, must fight back; and the responsibility for the deterioration of Sino-US relations lies with China. My basic judgment on current Sino-US relations is completely different from the so-called “Thucydides trap.” My basic conclusion is that because the US was No.1, throughout the 20th century the US has been following its diplomatic traditions to gang up on the No.2, whoever the No.2

is or whether there are ideological, cultural or civilization differences between them. This thinking came from the UK, which, as once the most powerful country in the world, had kept fighting against the No.2 countries throughout the two or three centuries of its hegemony. Now China has become the No.2, and thus is being attacked by the US. My question is: We've known that both sides will be harmed during the friction. Ordinary Chinese people may be more concerned about whether they would be affected by the friction and if so, what kinds of adverse impacts will they face?

Prof. Yu: Thanks for Prof. Qian's profound interpretation. The most direct impact of Sino-US economic and trade frictions on ordinary people is whether Chinese parents should still send their children to study in the US. My view is to be cautious. For example, due to the impact of the epidemic, the airfare between China and the US is as high as 200,000 yuan. In addition, from the perspective of Sino-US economic and trade, Sino-US relations will become more complicated in the future, and the attractiveness of studying in the US may also be greatly reduced. In fact, I never encourage parents to send children to study abroad during middle school, unless the children plan to stay in the US for further development. With such a complicated Sino-US relationship, I do not think studying in the US is a suitable choice. We also have graduate students who are going to study abroad. They have got an offer but cannot get a visa. This is not an individual case, and may become a common phenomenon in the long run.

Prof. Qian concluded the meeting by saying that Prof. Yu's report was well-founded and cited a large amount of economic

data, which is not available to our general audience. The highlight of Prof. Yu's report is an analysis based on economic data, followed by drawing inferences. We should study such academic methods — speak with facts and discuss through facts before drawing conclusions. Similarly, when a country formulates various policies, including foreign policy, when dealing with political, cultural or other mutual or multilateral relations with other countries, the discussions should also be based on facts. Regarding the question of who suffers more in the Sino-US economic and trade friction, Prof. Yu has given us the answer in his own way today. I hope that there will be more opportunities to discuss issues related to area studies in the future.