

US-China Trade Conflict and Its Implications for Research

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Trade War: from “why” to “who will blink first?”

- The trade war has fundamentally disrupted China’s relationship with the world
- The narrow focus of business researchers
 - <https://www.voachinese.com/a/us-china-trade-global-supply-chain-interview-with-daniel-kao-20190802/5026640.html>
 - VOA survey...
- How did we get here? What are the implications?

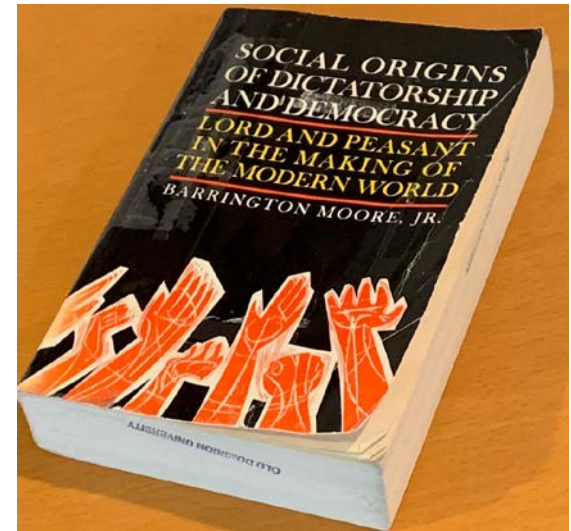
China's evolution

- 1949-1976: Mao's radical policy
 - “Ten years of chaos and disaster” (official term, 1978)
- 1977: The reform
 - No intended strategy: Feeling the stones to cross the river
 - Practical: Black and white cat “theory”
 - “韬光养晦” (tao guang yang hui)
 - Decentralization and opening up



The hope and failure of the engagement approach

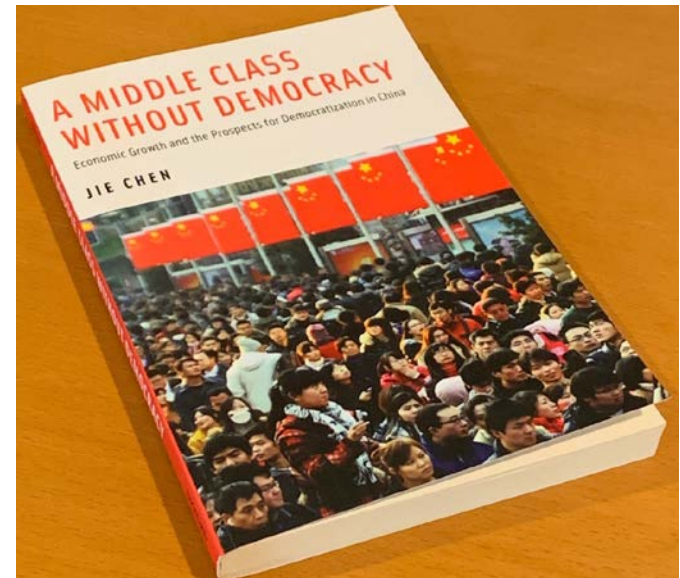
- The mature democracies, led by the U.S. had adopted an engagement approach with China.
- The rationale:
- The history of democracy in the U.K.
“No Bourgeoisie, No Democracy” (B. Moore)
- “Economic development => rise of middle class => demand for democracy”



Minxin Pei:
US\$6,000 per capita income is the threshold for the democratic transition.

The hope and failure of the engagement approach-2

- 40 years later...
 - China's economy is \$23 trillion (based on PPP)
 - \$16,000 per capita income
 - Democracy and the rule of law are still missing
- What went wrong with the engagement approach?



The political economy of China

- The Party
 - Leninist Party vs. parties in democracies
 - Communist ideology that gives the party the mandate to rule
 - Exclusive membership
 - Centralized hierarchy—central comm, politburo, secretariat general
 - Three key departments: organizational, propaganda, united front work
 - Total control: the party is the state, the country is a corporation
 - Political, legal, economic, cultural, social
- The industrial policy
 - Protect key industries, access foreign markets and technologies, mobilize national resources to quickly achieve the economy of scale and low cost, and dominate the global market.
- Rule *Over* law vs rule *of* law

The Trade War

- U.S. complaints about China:
 - High tariff, forced technology transfer, stealing, barriers to enter the Chinese markets, currency control, trade imbalance, “Made in China 2025.”
 - The U.S. trade deficit with China was **\$375** billion in 2017. The trade deficit exists because U.S. exports to China were only **\$130** billion while imports from China were **\$506** billion.
- Measures:
 - U.S. imposed tariffs on Chinese goods first;
 - Also more restriction on investment in U.S. from China.
 - China responded by imposing tariffs on U.S. goods.
 - Targeting Trump’s voting base...

What does each side want from the other?

- U.S. from China
 - improvements
 - Lower tariff, lower entry barrier, better IP protection, buy more from U.S.
 - Fundamental changes
 - 1, reduce the role of dominant role of the state in economy; 2, open the internet, 3, allow workers to organize, 4, stop farm subsidies and “Made in China 2025”
- China from U.S.
 - Nothing--It wants to keep the status quo.

It's More than just trade

- General Secretariat Xi: “We want to be the participant, initiator, and leader of global governance reform and development”
 - (RFI, 2/17/2019) <http://cn.rfi.fr/中国/20190217-习近平决不走司法独立的路-要当国际规则引领者>
- The New Normal
 - The Cultural Revolution is now “Ten years of difficult and painful exploration”
 - Xi is leading the second “difficult and painful exploration.”
- President Trump: “Somebody had to take China on,”
 - (Reuters, 8/20/2019) <https://www.reuters.com/article/us-usa-trade-china-trump/trump-says-had-to-take-china-on-regardless-of-short-term-impact-on-u-s-idUSKCN1VA21B>



A Wall Street Journal cartoon

It's more than just trade-2



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Most U.S.
publications



All propaganda
materials by
the party-state



Can the two countries decouple?

Hong Huang: Here is what in common between China and U.S.

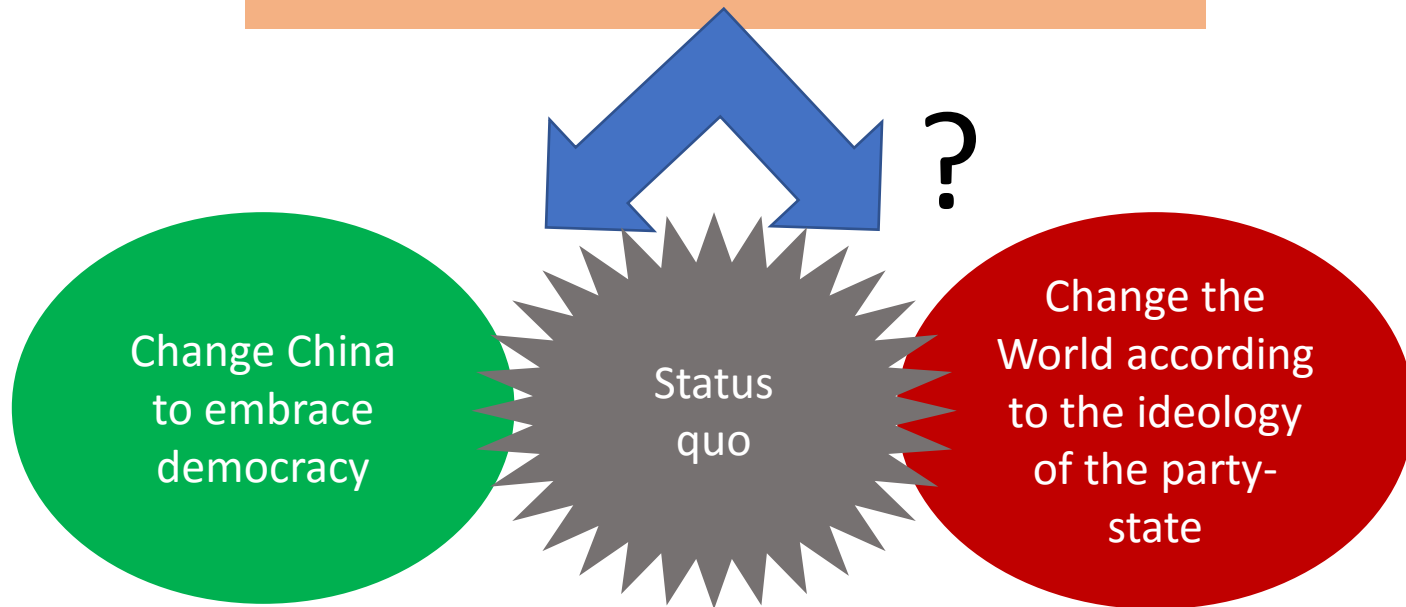
	China	U.S.
Where can we find corrupt Chinese officials?	Yes	Yes
People of which country like to blast the U.S. government?	Yes	Yes
Which country enjoys low-cost labor in China?	Yes	Yes
Where do the super rich live and keep their money?	U.S.	U.S.
Where do officials hold legal residence?	U.S.	U.S.

Economic Resources: China Vs. U.S.

Country	% of world GDP	Income/ person	Reliance on trade	% GDP controlled by state	Political system
China	20% (PPP)	\$16,700 (PPP)	38%	61%	totalitarianism
U.S.	20%	\$60,000	27%	33%	democracy

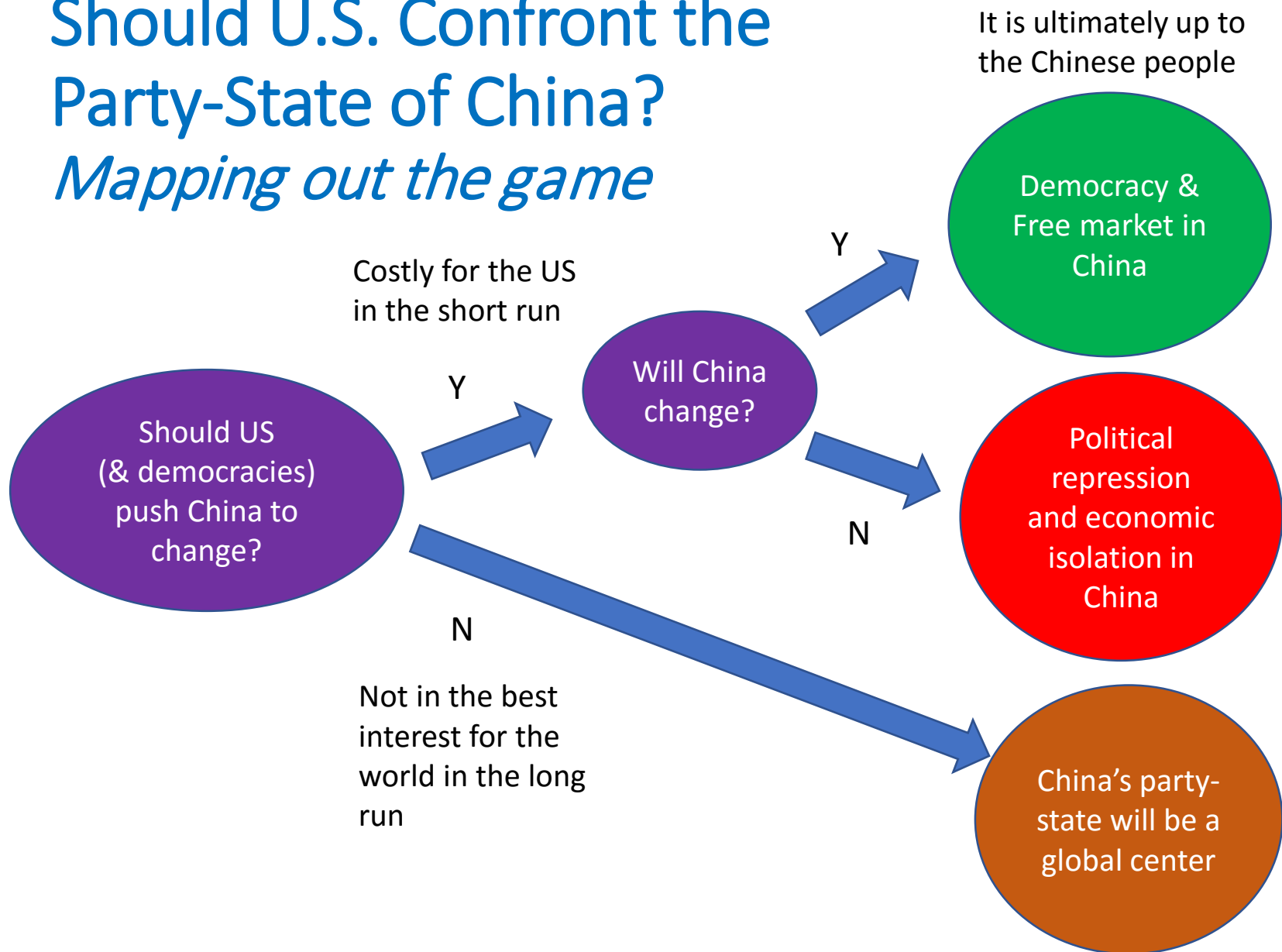
The Party-state's options for China

The heavy reliance on trade means that China must interact with the world, but it's political system conflicts with the democratic world. The party-state has two options:



Should U.S. Confront the Party-State of China?

Mapping out the game





Research Implications

- Institutional change
 - Not only one-way
- The boundary of the firm
 - Is Huawei a privately owned firm?
 - Director Wang's observation on HRM in China
 - Lawyer Fan's observation on Chinese court
 - Degree of independence by occupation
- China's global expansion
 - Chinese firms are subsidiaries or departments
 - Institutional duality
- Cultural change in China
 - The role of the state



Thank you!