

**stars insights: 18 July 2019**

**“If you reach agreement in a negotiation with China, you can be sure it is in China’s interest”**



*In an exclusive stars interview, **Michael BARBALAS**, Former President and Vice Chairman of the American Chamber of Commerce in China, expresses his views on the US-China trade war. While the major focus has been on the trade deficit between the US and China, he argues that there are more fundamental issues such as forced technology transfer or cyber security concerns that deserve more attention. Based on his analysis of the deep-seated causes of the trade war, Barbalas pleads for a new model of cooperation between the two countries in order to resolve current disagreements.*

*Markus PRANDINI: What are the major issues for the United States that have prompted Donald Trump to raise a trade war with China?*

Michael BARBALAS: For President Trump, the issue has been the trade deficit between the United States and China. This was one of the major issues he raised during his presidential campaign. A lot of economists and analysts argue, however, that there are more fundamental issues such as forced technology transfer, a lack of intellectual property protection, restricted market access or cyber security concerns.

*In economic theory, tariffs are mostly seen as negative for a society by creating a so-called deadweight loss, meaning that the consumers pay the bill due to higher prices on imported goods. Is Donald Trump completely unaware of this deadweight loss?*

In a tweet, Donald Trump wrote that the United States will earn a lot of money from these tariffs. Even though his National Economic Council Director Larry Kudlow acknowledged in an interview that the US consumer will be affected by the higher tariffs, it's questionable whether President Trump fully understands the consequences of his policy. In my view, the tariffs will have a negative impact on both the United States and China.

*How can Donald Trump sell these negative consequences to his voters for his re-election?*

Donald Trump makes statements a lot of economists would disagree with. However, in his re-election campaign he will likely focus on the low US unemployment rate, the ongoing economic growth and the performance of the stock market.

*Trade theory – according to David Ricardo – is based on the concept of comparative advantage. In your opinion, does the United States still have a comparative advantage in international trade? If so, where do you see comparative advantages of the US?*

I think the US still has a lot of comparative advantages in terms of the educational system or industrial and IT technology. The US is very strong in innovation not only in products and services but in having an entire ecosystem that invests in R&D and commercializes those R&D efforts in a very efficient and successful way.

*Many experts say that China is now catching up in exactly those areas. The trade war is therefore less about trade, but more about global technology leadership.*

It is true that China will continue to catch up. The Chinese government has realised for its own economy that it needs to move towards higher value-added products since the cost of living is constantly rising. If you want the standard of living of the Chinese people to increase, productivity has to increase. China has been very focused on improving innovation, creating incentives to foster innovative business ideas. However, I do not see China catching up technologically as a problem for the US or Europe as long as there is a level playing field. I have never heard anyone raise concerns about innovation in Europe. This is because there is an open and fair market for trade and investment going both ways between the US and Europe. By contrast, currently there are still restrictions for US and European companies to acquire Chinese companies, whereas Chinese enterprises can easily acquire US or European technology firms. This imbalance has to be resolved.

*A couple of years ago, the concern was raised that the US and China inevitably will go not only to a trade war, but to a military war – a view which became known as the Thucydides' trap. This theory claims that whenever the number two nation challenges the number one nation, there will be war. What is your view on this?*

The Thucydides' trap is a well-documented historical theory, and China is aware of it. In my view China wants to avoid a military conflict, but the problem are always the black swan events, those incidents you cannot predict or did not plan for. There is a risk that an escalation can get out of hand, and this risk has increased in recent months. The US and China therefore need to cooperate again more closely in order to avoid military confrontation and escalation.

*The US and China represent competing economic and political systems, that is free-market-economy-based democracy vs. socialism with Chinese characteristics. Looking ahead ten years into the future, will any of these two systems become the dominant one?*

If you look, for instance, at the current narratives of China about the Belt and Road Initiative, China is not looking for allies but for partners. And China wants to partner with almost any country, and they do this on the basis of mutual interest. I don't see China exporting socialism with Chinese characteristics. I see China promoting a global model based on a win-win approach and collaboration. In some ways the US approach is more ideological in terms of other countries to adopt the US economic or political policies and respecting human rights. China is much less ideological in this regard.

*If we talk about harmonious cooperation or win-win collaboration, that works only as long as it is in the interest of China.*

That's correct. China will not agree to terms which are not in their interest. They have been commended by President Trump in this regard. Whatever negotiation you have with China, if you reach agreement, you can be sure it is in China's interest. Chinese are very disciplined negotiators. You therefore have to be very clear about your own interests. In the corporate world I often see Western companies that don't give enough attention to discipline during negotiations. Later they feel frustrated and at a disadvantage.

*We can see the current trade war as a power game between the two biggest economies in the world. Donald Trump thinks that China is eating the American people's breakfast, lunch and dinner. Xi Jinping thinks that the US is trying to keep China down. Is there a way out of this vicious circle?*

I think part of any new model for cooperation is the US understanding that each country exists in a multipolar world. It's not just the US and China. You also have to consider Russia, India, South Africa, the European Union, Latin America. The US needs to comprehend that it is not the only power, but one of several important powers in a multipolar world. This is a conceptual as well as practical change for US policy. I think China understand this. If you look at China's diplomacy in the past five years, it's impressive. The top leaders – Xi Jinping, Li Keqiang – are visiting leaders of other countries almost every month. They are in Europe, Africa, Latin America. China has an active global diplomacy outreach. I think this kind of approach is appropriate in a multipolar world to promote the interests of your own country and aligning those with the interests of other countries. The US needs to adopt a similar kind of approach in the future. To specifically get to the US-China relation, both countries established diplomatic ties because they were having challenges with the former Soviet Union. When the Soviet Union disappeared, it caused a re-evaluation of the basis of the US-China relationship. Now both countries have to ask the question why it is in the US interest and why it is in the Chinese interest to work together. There are many good reasons. Most global problems cannot be resolved without the participation of the US and China, but neither country is big enough to solve those problems on its own. Economically both countries need to keep up trade to maintain further growth. Military and security-wise both countries have to find ways to cooperate if we want to live in a peaceful and productive world. There needs to be a comprehensive look at both countries' fundamental interests to create a strong mutual foundation to tackle the problems and challenges of our world.



**Michael BARBALAS** is a Beijing-based speaker, board member and consultant. He is a member of the National Committee on US-China Relations and previously served as President of the American Chamber of Commerce in China where he led the programs and services to support over 1'200 member companies and 2'600 individual members. Barbalas served as Vice President of China programs for UTC Aerospace Systems, overseeing Aerospace Customers & Business Development for China and the integration of Goodrich China after its acquisition by UTC. Michael was one of the first foreigners to be granted China permanent residence status.

The interview was conducted on the sidelines of the stars China symposium 2019 by Dr. Markus PRANDINI, Professor for International Business at Shenzhen Technology University. The views expressed here are solely those of the interviewee and they do not necessarily represent or reflect the views of the stars Foundation.

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