

TRENDMACRO LIVE!

On China's Trade War "White Paper"

Sunday, June 2, 2019

Donald Luskin

A tough statement about US/China negotiations means China is still in negotiations.

The State Council Information Office of the People's Republic of China has released over the weekend what [state-controlled media are calling](#) a "white paper," entitled *China's Position on the China-US Economic and Trade Consultations*. To read the official English language version, *do not click on the link provided by state-controlled media – it opens a Microsoft Word document full of viruses and malware. Instead, click on this link* that opens a scrubbed PDF document hosted on our website.

The paper was introduced in a press conference by Vice Minister of Commerce and Deputy China International Trade Representative Wang Shouwen. [He is the same official who said, in September, that China would never negotiate with the US while tariffs are in place, because they are like "a knife at its throat"](#) (see ["Our Knife at China's Throat"](#) October 8, 2018). Wang is China's top staff-level trade negotiator, perhaps the hierarchical equivalent to the White House's Peter Navarro, which is to say, he is the man who gets trotted out when it's time to make fairly absurd statements designed to sound strong – but at least in Wang's case, actually betraying weakness.

- The "white paper" says "China is open to negotiation, but will also fight to the end if needed." It makes numerous references that seem like an open door to further talks, such as the stated desire to "work together with the US to find solutions, and to reach a mutually beneficial and win-win agreement." While in one sense this is an invitation, it is also a delusion, probably conjured up to save face at home. After all, it is the nature of this negotiation not to be "win-win" – China's best outcome is that one in which it loses the least (see ["On Trump's Tariff Tweets"](#) May 6, 2019).
- *Nevertheless, a "white paper" on the trade negotiations implies, by its very existence, that from China's perspective there are negotiations.*
- The "white paper" begins by emphasizing the mutually destructive nature of trade wars. True enough, but all wars are to some extent mutually destructive. The question is: which side has the necessary resources to win? Our view all along has been that this is like a college fraternity drinking game, in which the winner is the frat-boy who can survive the most damage (see ["Did China Just Run Up the White Flag in the Trade War?"](#) July 10, 2018). We suppose anyone who plays this game thinks, going in, that he will win. But our view

Update to strategic view

US MACRO, ASIA

MACRO: China has published a "white paper" laying out its position in the trade negotiations. While tough in some superficial ways, publishing it at all means the negotiations are still open. Wang is the spokesman here, the same staff-level negotiator who said in September that China would never negotiate while the US held "a knife to its throat." China ended up negotiating precisely because of that "knife," and it will again.

[\[Strategy dashboard\]](#)

is that the asymmetry of the US/China trade relationship, combined with China's own internal fragilities, make the US the easily predictable winner. So it is a sign of weakness that China is even admitting that it will have to suffer damage here.

- President Xi Jinping made the same mistake when [he recently visited](#) Jiangxi, the launch-point in 1934 of the “Long March,” and called for national sacrifice. Poor salesmanship. The “Long March” was a desperate retreat, and 90% of the Chinese communists who started on it either died or defected to the enemy by the time it was done.
- *From there the “white paper” becomes increasingly absurdist.*
- It claims China's technology prowess is based on “self-reliance.” One wonders, then, why its technology champions like Huawei and ZTE face extinction in the absence of US-made components.
- The “white paper” claims that “China is fully committed to intellectual property protection. It has established a legal system for the protection of intellectual property that is consistent with prevailing international rules.” But then it goes on to admit that this legal system has been “adapted to China's domestic conditions.” Need we say more?
- The “white paper” takes a swipe at President Donald J. Trump by stating that the “trade war has not ‘made America great again.’” It claims that US tariffs on imports from China have raised costs for US purchasers and contributed to US inflation. It doesn't mention that, so far, the costs to US tariff-payers have been offset, in aggregate, by weakness in the Chinese currency (see [“Sympathy for the Tariff Devil”](#) May 17, 2019). As to inflation, well, so far in 2019 core PCE inflation has been running at 1.44% per annum, well below the Fed's target. Is the argument that if it weren't for the tariffs the US would be in outright deflation?
- The “white paper” goes on to accuse the US of “bullying the world” and “undermining the authority of the multilateral trading system.” China would have more authority to speak about the multilateral trading system if it had observed it more scrupulously. The confession of weakness here is that China has asymmetrically benefitted by gaming that system and is now confronted with a US initiative designed to force them – unwillingly – to comply with it.
- The “white paper” accuses the US of bad faith in the trade negotiations, citing three instances of US “backtracking” on agreements. This mirrors the [US accusations that China “reneged”](#) on its agreements, and as such it's fairly typical of the theatrics that always crop up in negotiations (again, see [“On Trump's Tariff Tweets”](#)). China's accusations, though, have a particularly comical dimension. In his press conference, Wang defended China from the US's “reneging” charge by saying, in English no less, that “Nothing is agreed until everything is agreed.” True enough, but why doesn't that same logic apply to US “backtracking”?
- The rest of the “white paper” is a rambling disquisition on the need for “mutual respect, equality and mutual benefit.” Again, this is a delusion. From the perspective of the Chinese leadership, there is no “mutual benefit” (although we believe the Chinese economy – which is an entirely different matter – would gain greatly by

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[\[About us\]](#)

Recommended Reading

[William Barr interview:
Read the full transcript](#)
CBS News
May 31, 2019

[\[Reading home\]](#)



Donald J. Trump @realDonaldTrump · 1h
 When the time is right we will make a deal with China. My respect and friendship with President Xi is unlimited but, as I have told him many times before, this must be a great deal for the United States or it just doesn't make any sense. We have to be allowed to make up some....



Donald J. Trump @realDonaldTrump · 1h
 ...of the tremendous ground we have lost to China on Trade since the ridiculous one sided formation of the WTO. It will all happen, and much faster than people think!

becoming less protectionist, as the US is demanding). But again, the leadership doesn't wish to comply with a single US demand, and its game is to achieve an outcome in which they have to comply with as few as possible. *This is the crux of the matter – China will come to an agreement only when what its leadership has to give up is perceived as a fair trade-off against the potentially catastrophic economic and societal consequences of an increasing disengagement from the US.*

- *Trump always helps the sociology of this dilemma by taking care to flatter President Xi even as he harshly criticizes China. For its part, China is doing something along the same lines here – letting the relatively low-level Wang do the dirty work, while opening a safe space for Trump and Xi.*
- The “white paper” concludes by saying, “Every country has its own matters of principle... On major issues of principle, China will not back down.” What those principles are, exactly, is not explained.
- *You remember what happened right after Wang said China would never negotiate because of the “knife at its throat.” Yep. China started to negotiate, precisely because of the “knife at its throat” (indeed, why else?).*
- *Now, the very existence of this “white paper” – and Wang’s press conference – strike us as fundamentally a weak move. If you want to be strong, why not just do a bunch of really self-destructive stuff like [cut off exports of rare earths](#), [stop buying US soybeans](#), [blacklist US tech firms](#), and [make life difficult for Federal Express](#). How does it show strength to offer documents and make public statements that just rehash all the he-said Xi-said blame-game nonsense?*
- As we’ve said so often, it’s in the nature of negotiations in this phase for both sides to go all drama queen. *So maybe now we’re just blinded by confirmation bias, but this “white paper” sure seems like drama queen stuff. For all its mixed messages, we see it as an invitation for Trump and Xi to talk.*

Bottom line

China has published a “white paper” laying out its position in the trade negotiations. While tough in some superficial ways, publishing it at all means the negotiations are still open. Wang is the spokesman here, the same staff-level negotiator who said in September that China would never negotiate while the US held “a knife to its throat.” China ended up negotiating precisely because of that “knife,” and it will again. ▶