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CHINA Update: Vice Premier Liu He Will Visit Washington May 15

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1. The Trump tweet announcing intent to “save” ZTE is an important insight into whether the administration has made strategic decisions about US-China relations.
2. Regardless of the current state of development of the administration’s views on engagement with or containment of China, the Congress is advancing new definitions of trade and investment policy toward China in sensitive high technology sectors.
3. Vacillation at the level of core policy may do substantial damage to the credibility and effectiveness of the administration’s China policy.

Vice Premier Liu He will visit Washington May 15-19. The Chinese announced his visit and the dates within 24 hours of President Trump’s tweet to the effect that he intends to save ZTE from the seven-year ban on US sales to ZTE that his Commerce Department recently imposed.

What is the Trump administration’s objective in its trade and investment policy toward China? **Implicit in the question is doubt whether there is an overarching strategy.** Is that correct? Do the administration’s trade and investment steps toward China amount to a concatenation of tactical moves?

The question remains salient. If the highly touted goals dating to the President’s election campaign (and before in Trump’s personal history) are **to reduce the merchandise trade deficit and bring US manufacturing jobs back home**, and everything else is subordinate to these objectives, then the administration must persuade the Chinese and, perhaps more to the point, US CEOs, that its changes to the trade and investment landscape are permanent. Relevant actors may change short-term behavior in response to short-term pressure. **If Trump wants long-term change**, he must credibly be seen to have a long-term plan. Otherwise interlocutors will likely choose to outwait him.

Congress has a plan on investment. There is strong support in Congress, backed by vocal and powerful constituencies, for new guidelines to the Committee on Foreign Investment in the US (CFIUS) to restrict Chinese access to sensitive technology and to re-draw the lines of what can be exported to China. And new Congressional mandates will in part be implemented through establishment in law. **The same sort of law that was the basis for the punitive action targeting ZTE; it evaded US sanctions.** The facts are not in dispute.

Similarly, **laws against stealing trade secrets or hacking into US infrastructure are the basis for our protection against predatory Chinese behavior.** The facts and the laws matter. The administration appears to undervalue the legal basis for the action against ZTE by putting the issue in play as a tactical bargaining chip.

If all this turbulence to date in US-China relations produces nothing but some delta over what the Chinese would have spent on US goods over the next year or two will it have been worth it? **North American and European businessmen and women have articulated demand for systemic change in China. They will continue to advocate for change toward that end.** Chinese practices that produced these reactions will continue. In short, calling a halt to the incipient trade war and declaring pre-emptive victory would fail to solve the underlying problems and would not stop the drift toward more adversarial relations. Put differently, the Trump administration did not create pressure for change in trade and investment relations; it may have an idiosyncratic approach, but that approach rides real political force arising from built-up frustrations with the China market.

And the Chinese are not going to make irretrievable concessions to “save” ZTE. If we feint in the direction of liberalization of our rules restricting Chinese investment and trade in high technology sectors, then rejoin the offensive after a certain point in time, the Chinese will tack with us.

Was the ZTE decision just another tactical move, easily reversed, then reversed again, on the way toward an equivocal ending to the Trump administration’s record of trade and investment with China over the four years of its term of office? To put that question in context, recall the basic rationale for engagement with China is not **different today than it was before normalization in 1979 or before China’s WTO accession. How do we manage US-China policy to maximize US interests?** To put that in 2018 terms, what is our goal in Iran and what can China do to hurt or help? What is our goal in Russia and what should we try to extract from China in that context? What can China do to assist or deter progress toward a more stable Korean peninsula? How can China add to or diminish our efforts to expand global trade and investment in ways that promote a rules-based order with built-in protections against predatory behavior?

Ultimately, the vacillation about ZTE is vacillation about our engagement strategy. Are we promoting the international rule of law, enlisting China’s necessary if minimal support on global and regional issues, and maximizing benefits to a wide array of US constituencies involved in the relationship? **That is a policy of engagement.**

Or are we shifting toward a policy of containment based on a clear view that China is becoming our adversary in many sectors and geographic areas? That shift would require our application of new laws and policies to deny or delay China’s access to the means to become our rival in areas that matter most to us, including our technological lead over China.

The ZTE decision is not meaningless or merely tactical, even if the administration were to treat it so. In the larger picture, whether ZTE is a viable commercial entity is of temporary

significance. But the US attitude toward that question is of strategic and long-lasting import.