



BRAZILIAN CENTER FOR
INTERNATIONAL RELATIONS

ASIA PROGRAM, XII MEETING, YEAR II

ASIA PROGRAM

XII CHINA ANALYSIS GROUP MEETING

RIO DE JANEIRO, JUNE 18, 2019

Videoconference connection hubs: Beijing,
Brasília, São Paulo and Washington, D. C.

Other connection points: Shanghai

Speakers: Marcos Troyjo, Jin Canrong,
Kellie Meiman, Niu Haibin

Commentators: Lia Valls and Tatiana
Prazeres

Coordinator: Tatiana Rosito

THEME

Whither US-China Trade
War? Impacts on global trade,
technology and finance, and
strategies to mitigate risks

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The Brazilian Center for International Relations (CEBRI) is an independent think tank that contributes to establishing an international agenda for Brazil. For over twenty years, the institution has engaged in promoting pluralistic and proposal-oriented debate on the international landscape and Brazilian foreign policy.

CEBRI prioritizes themes with the greatest potential to leverage the international insertion of Brazil into the global economy, proposing pragmatic solutions for the formulation of public policies.

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Rua Marquês de São Vicente, 336 - Gávea - Rio de Janeiro / RJ - CEP: 22451-044
Tel + 55 21 2206-4400 - cebri@cebri.org.br - www.cebri.org



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SUPPORT:



ASIA PROGRAM

The Program promotes a systematic monitoring of matters relevant to international relations and Brazilian development, particularly those related to China.

Special attention has been given to monitoring the ongoing economic reforms and political transformations in China, considering their global effects and impacts in Latin America and Brazil. This continuous examination allows CEBRI to provide information and analysis to its members and partners and to the Brazilian government, contributing to the construction of Brazil's strategic position towards China, as well as helping increase knowledge about China within Brazilian society.

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AUGUST 14, 2018

 REPORT X, YEAR I
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Anna Jaguaribe

Member of CEBRI's Board of Trustees and Director of the Institute for Brazil-China Studies (IBRACH). She is currently Visiting Professor of the Public Policies, Strategy and Development Program at the Federal University of Rio de Janeiro (UFRJ). She has previously worked at the United Nations, in New York, and as a consultant for the United Nations Conference on Trade and Development (UNCTAD), in Geneva.



SENIOR FELLOW

Tatiana Rosito

Ms. Tatiana Rosito is a diplomat and an economist, having worked over ten years in Asia, five of which at the Brazilian Embassy in Beijing, as Minister-Counsellor. She is currently Chief-Representative of Petrobras in China and General Manager for Business Development in Asia. At CEBRI, she is a Senior Fellow and the coordinator of the China Analysis Group. Previously, she was Executive Secretary at the Brazilian Foreign Trade Board (CAMEX) and Special Advisor to the Ministers of Finance and Planning, among other roles in the public service. She holds a Master in International Development degree from Harvard Kennedy School and an Executive MBA degree from INSEAD and Tsinghua University.



EXECUTIVE
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Julia Dias Leite

Julia is CEBRI's executive director since 2015. Previously, she worked for 10 years at the Brazil-China Business Council (CEBC), where she occupied the position of executive secretary. Recently, she was chosen by the U.S. State Department to participate in the Young World Leaders program.

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GUIDING QUESTIONS

Are we observing a decoupling of trade and technological supply chains as we have known them for the last two decades? Will US and China partners need to make a choice between two new systems? Economic and geopolitical implications and possible strategies.

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XII MEETING REPORT

ARE WE OBSERVING A DECOUPLING OF TRADE AND TECHNOLOGICAL SUPPLY CHAINS AS WE HAVE KNOWN THEM FOR THE LAST TWO DECADES? WILL US AND CHINA PARTNERS NEED TO MAKE A CHOICE BETWEEN TWO NEW SYSTEMS? ECONOMIC AND GEOPOLITICAL IMPLICATIONS AND POSSIBLE STRATEGIES.

During its 12th meeting, CEBRI's China Analysis Group promoted broad discussions on the economic and geopolitical causes and consequences of trade frictions between China and the United States, considering its impact on different actors and on the multilateral trading system at large. Despite its original focus on trade imbalances, participants noted that the bilateral rivalry's underlying drivers relate to competition for leadership in high-tech sectors and, fundamentally, to the conciliation of practices associated to different development models. Notwithstanding the uncertainty surrounding the next steps in the dispute, there was a consensus among participants that a complete decoupling between both economies is virtually unfeasible in the short-term and not likely in the long-term.

In this context, the label of a “New Cold War” was described as unsuitable to illustrate the current scenario, marked by unprecedented degrees of economic interdependence. While American multinationals feature an established presence and investing interest in the Chinese market, China also relies on the US as its main trading partner and one of the top destinations for foreign direct investment. Nonetheless, in the face of uncertainties and increasing pressures from the US for allies to restrict Chinese investments, participants highlighted the increasing adoption of hedging strategies within multinationals, aimed at minimizing risks by diversifying and reshaping supply chains.

Geopolitically, the bilateral rivalry was characterized as a result of power dynamics between established and rising powers – driving the US to adopt a contention strategy towards China's growing international extroversion and role as an institution-builder. In the medium term, this scenario would lead to a fundamental “clash of globalizations”. It consists of an inevitable collision between China-led globalization – featuring new institutions and regulatory practices – and the US' long-term aspirations to remain a protagonist in a liberal international order, despite current protectionist retractions. In this respect, despite the current moment of “de-globalization”, with a decline of international trade and regional economic integration, participants anticipated a future reemergence of globalization with new characteristics – in particular, China's increased influence.

Within the bilateral strategic rivalry, even though competition in high-tech sectors represents a key driving force – with China rapidly catching up in quantity and quality – participants highlighted its original focus in perceived trade imbalances. Noted as an agenda particularly keen to Donald Trump and officials such as Peter Navarro and Robert Lighthizer, the US trade deficit with China – amounting to around US\$ 420 billion in 2018 – was at the center of initial accusations against Chinese trade practices. From a Chinese perspective, however, participants mentioned the absence of a policy deliberately aimed at sustaining trade surpluses with China’s trading partners – attributing the trade deficit largely to the global dispersion of American multinationals and to domestic economic factors in the US: in particular, low savings rates and macroeconomic policies focused on consumption. Moreover, the US tariff-focused approach disregards its large surplus in trade in services.

While the trade deficit motivated the adoption of initial tariff measures against China, the label of strategic competitor advanced by the US National Security Strategy reflects a deeper contestation of practices inherent to Chinese technological upgrading. As testified by the results of investigations carried under Section 301 of the Trade Act of 1974, intellectual property theft and forced technology transfer in joint ventures represent the core of US accusations against China’s supposedly unfair trade practices.

Underlying the trade dispute, there is a fundamental condemnation of practices that are central to Chinese State Capitalism governance model – which derive from the evolution of China’s export-led growth experienced since 1978. Within this process of Chinese partial integration to the international liberal order, participants highlighted the key significance of the most-favored-nation status granted to China by the US in 1979, facilitating access to global markets. Furthermore, the deep globalization period of the 1990s was defined as highly favorable to Chinese outward-oriented growth, culminating on its accession to the World Trade Organization (WTO) in 2001 – currently understood as not fully accommodating the range of institutional diversity observed among the world’s major economies.

According to participants, the conciliation of different governance and development models underlying the trade dispute will require a series of tough structural adjustments in the medium and long-term, with concessions on both sides. From a Chinese perspective, the US would need to moderate its demands - since it is understood that around 80% of demands were already agreed upon by China before negotiations derailed, mostly focusing on intellectual property and transparency in public policy.

Finally, more optimistic remarks point to the expectation of reaching a bilateral understanding in the short-term, possibly following the APEC Summit in November 2019. Considering the role to be played by major powers, beyond the US and China, in shaping future institutional settings, one participant highlighted that a functioning global order would require a “concert of nations” resembling the Concert of Europe of the 19th century, with new and existing governance structures coexisting.

NOTWITHSTANDING THE NATURE OF THE DISPUTE BETWEEN THE US AND CHINA, UNILATERAL ACTIONS OF BOTH SIDES, EVEN WHEN DEFENSIVE, MAY FUNDAMENTALLY DAMAGE THE PILLARS OF THE WORLD TRADE SYSTEM. WHAT ARE THE IMPLICATIONS OF THE CURRENT DISPUTE FOR THE GLOBAL TRADE SYSTEM? WILL IT ACCELERATE OR STALL WTO REFORM? IMPLICATIONS FOR MULTILATERAL AND REGIONAL AGREEMENTS.

Despite the contribution of multilateral institutions to sustaining a predictable and stable economic orders, the current trade frictions were defined as highly detrimental to the multilateral trading system – reflecting a more fundamental dilemma in conciliating different governance models within a multilateral framework. The relevance of multilateralism depends on its ability to promote coherence between states by creating spaces that allow for joint negotiation of concrete rules and principles – with certain degrees of flexibility.

In this respect, throughout the evolution of GATT, participants highlighted occasions in which the system accommodated exceptions without compromising its functionality: including the absence of agriculture in negotiations during the early 1950s; the introduction of the Multi-Fiber Arrangement in 1974; and the approval of the enabling clause, granting special and differential treatment to developing countries. While the Uruguay Round marked an important shift towards stricter rules with smaller room for exceptions, the Doha Round demonstrated the increasing difficulty in conciliating a wider range of interests and practices amongst developed and developing countries.

In particular, China's accession to the WTO in 2001 exacerbated diversity and resulted in contrasting expectations: while the US expected China to fully adhere to disciplines characteristic of the liberal international order, the Chinese strategy consisted of maintaining certain practices of its state capitalism model. Within this context, participants recognized that it is unreasonable to expect China to substantially change practices which are central to its growth trajectory and development model - even though it would be desirable to observe certain degrees of flexibility. The Chinese model is unique and China does not expect others to copy it when it surpasses the US economy.

In a scenario in which China adopts practices that may not be completely adherent to WTO rules – in areas such as intellectual property, subsidies and state-owned enterprises, for instance – participants mentioned it is necessary to discuss how to conciliate such differences within a functional multilateral system, in order to sustain its relevance. Ultimately, it would be crucial to find common ru-

les that are minimally acceptable to all parties and allow for convergence – especially in a scenario of increasing regulatory fragmentation between different systems.

However, without an understanding between China and the US, participants stressed that there are limited prospects for meaningful WTO reform. In particular, such a movement would require the US to see value in negotiating in a multilateral rather than bilateral fashion and to recognize a fully functioning Appellate Body. On the other hand, it would require China to show flexibility on some of the issues addressed by Section 301 investigations, especially concerning alleged intellectual property rights violations. In this context, participants suggested that, though Section 301 investigations were based on rules and principles pertaining to the WTO, it would have been desirable that these inquiries were conducted on a multilateral basis rather than unilaterally by the US, to ensure increased legitimacy.

THROUGHOUT THE CURRENT FRICTIONS, CHINA HAS REPEATEDLY UPHELD ITS SUPPORT FOR MULTILATERALISM AND INTERNATIONAL COOPERATION AND ITS COMMITMENT TO CONTINUE REFORMING AND OPENING UP. IS THERE A WINDOW OF OPPORTUNITY FOR THE “FRIENDS OF MULTILATERALISM”? THE ROLE OF EUROPE AND THE DEVELOPING WORLD.

Despite Chinese claims to enjoy support from all countries that reject protectionism and unilateralism, it is unclear the extent to which China represents such a reference of commitment to multilateralism among its partners. Nonetheless, participants highlighted the usefulness of tapping the networks of partnerships established by China in different regions – including in the context of the Belt and Road Initiative – that could be better explored in the current scenario of trade tensions.

Accordingly, in order to fully seize the opportunities placed by Chinese growth and global reach – particularly in the shape of foreign investments –, partners should avoid unilateral pressures from the United States towards restricting ties with China. While these pressures were initially concentrated in traditional US allies in Europe and elsewhere – mainly aimed at restricting Chinese acquisitions of so-called sensitive technologies –, they currently also reach Latin American countries.

In the case of Brazil, participants stressed the need to avoid choosing sides while exploring as much as possible from both partnerships – without losing sight of the current window of opportunity enjoyed in the bilateral relationship with the United States. In this regard, although the US-China trade frictions have produced short-term gains for certain Brazilian agricultural exports – filling gaps in Chinese imports of soy, for instance – participants agreed that a weakened multilateral trading system and negative prospects for global trade do not correspond to Brazilian long-term interests. In the long-term, considering complementarities between the Chinese and Brazilian economies and strategic needs, participants argued that there is plenty of room to expand exports in commodities such as oil and animal protein to China and Southeast Asia in the following years. At the same time, in order to qualitatively improve the trade relationship, it would be necessary to move towards higher value-added exports.

Within the context of reform prospects in the multilateral trading system, essentially dependent on an US-China understanding, participants stated that countries such as Brazil could contribute by offering concrete proposals on specific topics such as investments, subsidies or industrial policies – seeking common ground through solutions that are minimally acceptable to all countries. In this respect, the “friends of multilateralism” would have an important role to play in building a more flexible WTO, including through plurilateral approaches that favor the accommodation of different interests and practices.

BIOGRAPHIES



Jin Canrong

Jin Canrong is a State-honored “Chang Jiang Scholar” Professor, an “A-class” University Professor, and an Associate Dean at the School of International Studies of Renmin University, in China. Holds a BA from Shanghai Fudan University in Political Science, a MA from the Graduate School of Chinese Academy of Social Sciences (CASS) and a PhD from the School of International Studies at Peking University. Before joining Renmin University, he worked for the Institute of American Studies at the Chinese Academy of Social Sciences (CASS) from 1987 to 2002. His studies focus on American politics, American foreign policy, Sino-US relations and China’s foreign policy.



Kellie Meiman

Kellie Meiman Hock, Managing Partner at McLarty Associates, is responsible for external matters for the firm. In addition, she has led the Brazil & Southern Cone sector and trade practices of McLarty Associates since 2000. Ms. Meiman previously worked at the Office of the United States Trade Representative (USTR) as Director for Brazil and the Southern Cone. Prior to her work at USTR, she served as a foreign service officer with the US Department of State. She is a member of the Council on Foreign Relations and the Inter-American Dialogue. She sits on the board of the Brazil-US Business Council and of the New York-based Brazil-America Chamber of Commerce. She is a graduate of the Georgetown University School of Foreign Service.



Lia Baker Valls Pereira

Adjunct Professor of the Graduate Program in International Relations of the Rio de Janeiro State University (UERJ), Associate Researcher at Fundação Getúlio Vargas (FGV/IBRE) and member of the Institute of Brazil-China Studies (IBRACH) Scientific Council. Holds a PhD in Industry and Technology Economics from the Federal University of Rio de Janeiro and a Master’s in Economics from the University of Cambridge. Mrs. Valls writes regularly for the Foreign Trade section of FGV/IBRE’s *Conjuntura Econômica* journal and has published numerous articles, authoring books such as “Infrastructure: Perspectives from Brazil and China”. Her research interests include Trade Policy, Trade Negotiations and the Multilateral Trading System.



Marcos Troyjo

Marcos Troyjo is an economist, political scientist and diplomat. Holds a Master's and a PhD degree in Sociology of International Relations from the University of São Paulo and pursued post-doctoral studies at Columbia University. Professor Marcos Troyjo is Brazil's Deputy Minister of the Economy, in charge of Foreign Trade & International Affairs. He was the founder and co-director of the BRICLab at Columbia University. He also directed the Intelligent Technology and Trade Initiative within the framework of the International Chamber of Commerce, as well as numerous academic and business projects in several countries. He is the author of books on international economic development, such as "Trading Nation: Power & Prosperity in the 21st Century".



Niu Haibin

Niu Haibin received his Ph.D. in International Relations from the School of International Relations and Public Affairs at Fudan University. Currently, he is an Associate Research Fellow of the Center for American Studies and Assistant Director of the Institute for International Strategic Studies, Shanghai Institute for International Studies (SIIS). He is also Vice Secretary General of the Chinese Association of Latin American Studies. He has been visiting scholar at BRICS Policy Center in Rio de Janeiro, at the New York Office of FES, at the South African Institute of International Affairs and at George Washington University. He has published and translated several books on international studies, and is currently working on Brazil's foreign policy and cooperation among major developing



Tatiana Prazeres

Tatiana Prazeres is Senior Fellow at the University of International Business and Economics in Beijing, China. She is also a Member of the Advisory Board of the Geneva School of Economics and Management at the University of Geneva. Prior to these appointments, she was Senior Advisor to the Director General of the World Trade Organization (2013-2018) and Secretary of Foreign Trade of Brazil (2011-2013). In 2014, she was recognized by the World Economic Forum as a Young Global Leader. She holds a PhD in International Relations from the University of Brasilia and a Master's Degree in Law from the Federal University of Santa Catarina.

ATTACHMENTS

ATTACHMENT I: Thematic guidelines

Background - Official positions

At least since the first quarter of 2018, the world has been talking of a “trade war” between the United States and China. But since 2017, China had already been designated a “strategic competitor” in the first American National Security Strategy published under Trump’s presidency, which asserted “*We will work with our partners to contest China’s unfair trade and economic practices and restrict its acquisition of sensitive technologies*”. Also, Vice President Mike Pence spoke of a “New Cold War” in October 2018, among many other comments by American high officials. The Office of the United States Trade Representative (USTR) published its “Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974”, dated March 22nd, 2018 <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>. The document was issued in the context of an investigation launched by the USTR in August 2017, which included several rounds of negotiations with the Chinese side, in which they acknowledged to have agreed to increase their imports of certain American products. Consultations were also launched by the United States at the WTO. Many rounds of negotiations followed and a joint statement was published in May 2018 that alluded to consensus and to the suspension of the tariff increase program. Nonetheless, tariff increases resumed in July 2018. In September, the Information Office of the State Council of China published the White Paper “The Facts and China’s Position on US-China Trade Friction” http://english.gov.cn/archive/white_paper/2018/09/26/content_281476319220196.htm. Thereafter, in November, the USTR published an “Update” to the first Findings <https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Report%20Update.pdf>. And on June 2nd, 2019, China issued another White Paper, called “China’s Position on the China-US Economic and Trade Consultations”, available at http://english.gov.cn/archive/white_paper/2019/06/02/content_281476694892692.htm.

The main position documents point to different views on the main aspects under dispute and on ways of reacting to each other, blurring a technological, geopolitical and emerging-versus-incumbent-power type of battle into a “trade” or rather “tariff war”. The US has been making use of tariffs to achieve strategic objectives (allegedly because other instruments and dialogue have not been successful), in reaction to the much broader threat that “*China’s infrastructure investments and trade strategies reinforce its geopolitical aspirations... attempting to erode American security and prosperity...*”. Meanwhile, China often resorts to a long-term view on the right to development - and her largely-recognized

progress in transforming the economy and the life of its people in a generation - to justify a different set of policies, which would be commensurate with its stage of development. **On the one hand, we have a very clear US national strategy defined at the highest level of the American establishment. Its main goal is to contain the alleged geopolitical aspirations of China (and Russia, as the NSS makes very clear), in which trade and the economy are means rather than ends. On the other hand, we have a reaction from China that fundamentally relies on past achievements and strives to maintain some “policy space”. Additionally, China has made an effort to hold to a configuration of the world economy and of the global trade system that the US (and some of its allies) is willing to change and let go (because they are believed to contribute to the strengthening of China’s geopolitical and military might). With such a breach of interests, it is not difficult to imagine a very uncertain and turbulent scenario in the next one to three decades, even if a trade deal that could appease US demands in the short to medium term is reached this or next year.**

From a strictly economic point of view, it is very difficult not to agree with the Chinese arguments. They underline that the cost-benefit relation of China-US economic relations and cooperation should be measured against a broader and long-term perspective, not only taking into account trade in goods and services (and US exports restrictions), but also the structural current account imbalance of the US. Moreover, those should be judged in tandem with the US international investment position, which supports strong revenues for American multinationals in Chinese soil and a major role for processing trade in Chinese exports. Conversely, it is very difficult not to agree that many of the concerns of the US with Chinese trade practices and domestic policies have been shared by other countries (albeit not with the same arguments or to the same extent). This is so despite China’s deep contributions to the globalization in the last decades in the form of greater openness to trade and investment, along with other changes in domestic policies. There remain notably many concerns with investment restrictions, subsidies and the role of SOEs. Yet, USTR’s Findings as a basis for a trade war are highly debatable: forced transfers in the context of JVs to tap the Chinese market or Chinese labor endowments; Chinese state support for industrial policy is hardly a Chinese exception, despite its scale. Other threats such as cyberattacks are highly complex. So the US decided to go for tariffs...directly clashing with the trade order established in the last decades and supported by the WTO.

Tariff measures and the current situation

The “tariff war” can be traced back to the beginning of 2018, when the US raised tariffs on steel (25%) and aluminium (10%) imports that affected several partners, including Brazil. Although China was not the only target, it is the world’s biggest steel exporter. Even before, in January, tariffs had been raised on solar panels and washing machines. In reaction, China first raised tariffs on USD 3 billion US imports. Talks seemed to be going well and a consensus was announced in May 2018, just to fail in June. In the next months,

the US raised tariffs altogether on USD 250 billion of China's goods (25% on USD 50 billion tech goods and 10% on USD 200 billion of other goods) and China raised tariffs on USD 110 billion of imports of US goods, including soybeans, cars food, electronics. The agreed truce by Trump and Xi in December last year opened the way to new trade talks from January to April 2019, which derailed in May, despite the Chinese gesture of sending Vice-Premier Liu He to Washington even after US had announced its intention to raise additional tariffs during consultations. Finally, US tariffs on USD 200 billion were raised from 10% to 25%. Before the tariff measures, the trade-weighted average tariffs in the US and China were, respectively, 2.4% and 4.4%, despite some sectoral peaks. **All in all we have now about USD 250 billion of Chinese imports subject to a 25% tariff in the US (a rise of about 15%) and about USD 110 billion US goods subjected to 5% to 25% tariffs in China. And the threat remains to raise tariffs on all Chinese imports (an additional USD 300 billion) by the US to 25%.**

China has been the largest source of US imports for much of the past decade². But from late 2018 to early 2019 there has been at least a 3p.p.reduction in China's share of US total imports compared to the same period of the previous year, which has pushed China into second place, behind the EU, as the origin of US imports. There has also been a pickup in the share of other exporters, particularly several emerging Asian economies, but also Mexico and the EU (Brazil remained almost unchanged). Their analysis points to three implications. First, China has lost US market share in products subject to tariffs, as expected. But it has also lost share across products not yet on tariff lists, albeit to a smaller degree, suggesting a preemptive shift in supply chains away from China and toward other exporters, particularly in the EU and ASEAN. Second, tariffs have prompted a broad-based rise in market share in several economies, implying at least some substitutability of products on the initial three tariff lists. Third, and by contrast, goods that are yet to be subject to higher tariffs are less diverse, are China-dominated, and thus appear less substitutable. Unlike the experience to date, other exporters may not be able to plug the gap immediately, implying potentially more painful adjustments to come.

But what about the impact on the supply chain and multinationals?³ The research house Dragonomics has recently published some preliminary analysis based on interviews conducted after the increase in tensions. They separate multinationals' reaction into three groups: the first group includes companies that are moving production out of China, to Vietnam or elsewhere in Asia. The second group are firms (sometimes the same ones as in the first group) that are further localizing their China operations, so that they can still serve the China and Asian markets but are less exposed to tariffs. And the third group comprises those firms that are not doing anything yet, because the cost of shifting their investments is too high, and they are still uncertain how long the tariffs will last. **This diversity of reactions to the latest round of tariffs suggests that the migration of supply chains out of China is going to be a slow process.... While tariffs are important, they are only one of the many factors companies have to consider when locating production: others include the quality of employees, cost of logistics, local content require-**

ments and the scale of different markets. And for products with hundreds of different components, analyzing the impact of tariffs is in fact quite complicated.

Even though the impacts are mild on the aggregate, they are already felt and are bound to grow if there is no deal. But the true impact, barring a deal, is yet to come, since there might have been large anticipation of purchases before. This impact would hit US consumers with higher prices, disrupt supply chains and raise unemployment. It will also hit China with further decline in export orders, lower production and unemployment. Both sides are willing to use measures to mitigate impacts, be it the announced subsidies to American farmers or the stimulus for infrastructure projects and for consumers in China. This week some manufacturing hubs in the South of China reported 20 to 40% decline in export orders compared to the previous year, according to local analysts.

To countries like Brazil, the impacts are mixed and tend to be negative in the long run. Although the tariffs imposed by China on US products allowed for a major increase (35%) in the exports of soybeans to China last year, which reached a record 68 million tons, it would be very difficult to continue substituting for much more US exports in case the scenario deteriorates. There are also significant opportunities for the substitution of other Chinese imports, like poultry, pork and beef. So in the short term we may see some gains, which could even be partially maintained. But the uncertainty created by the trade war does not help in the long run. Besides the possible disruptions in supply chains, it also reduces global growth and increases financial volatility and risks, which may push down exchange rates. Yet, negative scenarios should be considered and they will require creative responses from the government to withstand the combination of fiscal pressure and higher financial volatility. Additionally, those scenarios shall include greater trade openness, which is one of the main goals of the economic team to help increase productivity.

Absent an agreement in the US-China trade talks in mid-May, the trade war threatens now to derail to a full-blown dispute, with marked technological and containment aspects and the direct banning by the US of business with the Chinese company Huawei, which is the largest world telecomm equipment-manufacturer and most successful Chinese multinational.

The trump cards

Although not all measures against Huawei have been implemented, the policy may represent a large blow for the company, which would be deprived of its main sources of semiconductors (chips). **But the degree of interdependence between Chinese and American markets in high-tech industries is so high that a real measure of the damage will only emerge with time and depending on the type and roll-out of sanctions.** On its side, the Chinese government has announced that it would label companies that cut ties with

Huawei as “unreliable”, as well as establish a mechanism for export control of sensitive technology. China has also anticipated the issue of 5G licenses for Chinese telecoms, which will be piloted in 40 cities in 2019. This anticipation will boost domestic market for Huawei and other manufacturers and may prove essential to the company’s preeminence in 5G technology, strengthening its edge in other countries.

While Australia and Japan have already announced that they will follow the US in banning Huawei from their 5G networks (partially for Japan), the picture in Europe is not so clear. Recently, following an official trip to China, Brazil’s Vice-President Hamilton Mourão has said that the country has no plans to bar Huawei from its 5G network, to be launched next year.

Amid growing tensions, Prof. Jin Canrong published an article listing China’s three trump cards, namely a total ban on exports of rare earths; a sell-off of China-held US debt; and curbing American companies’ business in the Chinese market, where they reap huge profits. He also reminded that although US semiconductors are essential for China in the short-term and a ban on US exports may slow down Chinese production of high-end products for some time, such ban would not only deprive US producers of two-thirds of their global sales but also spur the consolidation of the domestic industry in China.

In terms of the overall impact in the economy, Central Bank Governor Yi Gang has also declared recently that China has full-fledged toolkits to deal with the matter: “We have a highly resilient economy, an enormous market, and the hard-working, talented and united Chinese people. We also have the support of all countries in the world that reject protectionism, unilateralism and hegemony.” But to what extent?

What does the trade war mean for the rest of the world, the developing world in particular?

Even if the current trade war was only a tariff war it would entail direct challenges to the multilateral trading system. To start with, back in the beginning of 2018, China had agreed to buy more US products to avoid tariff increases, which implies China is able to direct the purchases of goods by its companies. This in turn implies that forces other than market forces are into play. Leaving this “original sin” behind, any bilateral deal based on tariff increases goes against the spirit of the WTO and free trade.

China has repeatedly pointed this out and positioned itself against unilateral, distortive and protectionist measures. Actually, notwithstanding all those concerns, the current frictions are proceeding with other countries and trade blocks witnessing virtually passively, despite the whole rhetoric. And with China retaliating the US using the same means, albeit in a more restricted mode. Maybe everyone was waiting for a deal and betting on the possibility of “going back to normal”. This sentiment has

recently shifted and maybe it is time for affected countries to intensify their dialogue.

So is the world doomed to watch the US-China conflict for the next 100 years, as put by Martin Wolf (see article in the reading list), or will the rest of the world be able to avoid irreversible structural cracks to the global system? There are probably more alternative scenarios in between a totally passive position and a concerted cooperative effort than we could imagine, and most countries would need to figure out how to deal with those scenarios and their relative position with respect to them (which also may vary with time and may not be unique in any point in time). If we are to avoid the Thucydides Trap, as concludes Graham Allison in his seminal article, *“Success will require not just a new slogan, more frequent summits of presidents, and additional meetings of departmental working groups. Managing this relationship without war will demand sustained attention, week by week, at the highest level in both countries. It will entail a depth of mutual understanding not seen since the Henry Kissinger-Zhou Enlai conversations in the 1970s. Most significantly, it will mean more radical changes in attitudes and actions, by leaders and publics alike, than anyone has yet imagined”*.

So far we are still dealing with an escalating trade war. Paraphrasing Joschka Fischer in a recent article, not only Europe, but also the developing world, needs a geopolitical strategy for the twenty-first century. Brazil, as the largest developing country in the Western Hemisphere and as a partner of both the US and China will certainly need to develop its strategy, based on its own national interests and taking into account its interactions with other regional and global partners on an increasing uncertain world.

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ATTACHMENT II: XII Meeting Participants

Rio de Janeiro

Alexandre Lowenkron	<i>Bocom BBM</i>
Aline Riso	<i>IPEA</i>
Ana Karina Wildt	<i>CEBRI</i>
André de Mello e Souza	<i>IPEA</i>
André Lobato	<i>Fundação Oswaldo Cruz</i>
Andréa Fernandes	<i>BNDES</i>
Ani Faro Mendes Lopes	<i>IBRACH</i>
Barbara Brant	<i>CEBRI</i>
Cintia Hoskinson	<i>CEBRI</i>
Claudia Chamas	<i>Fundação Oswaldo Cruz</i>
Erasto Almeida	<i>Vale</i>
Evandro Menezes de Carvalho	<i>FGV</i>
Fernando José da Silva Paiva Ribeiro	<i>IPEA</i>
Fernando Travassos	<i>ACRJ</i>
Gabriel Torres	<i>CEBRI</i>
Gabriela Gonzalez	<i>Petrobras</i>
Gabriella Cavalcanti	<i>CEBRI</i>
Gerlane Andrade	<i>IPEA</i>
Giselle Galdi	<i>CEBRI</i>
Guilherme Ferreira	<i>Catavento</i>
Guilherme Novaes	<i>CEBRI</i>
Henrique de Azevedo Avila	<i>BNDES</i>
Janaina Camara da Silveira	<i>Xinhua e Radar China</i>
John Wilkinson	<i>UFRRJ</i>
José Francisco Gouvêa Vieira	<i>Gouvêa Vieira Advogados</i>

José Pio Borges	<i>CEBRI</i>
Laura Pinheiro	<i>Lapa Advogados</i>
Leandro Rothmuller	<i>Bocom BBM</i>
Lia Baker Valls Pereira	<i>UERJ/FGV/IBRACH</i>
Livio Santos de Leite Ribeiro	<i>FGV</i>
Luciana Gama Muniz	<i>CEBRI</i>
Luiz Gustavo Guedes Vidal	<i>Queiroz Galvão</i>
Mario Ripper	<i>IBRACH</i>
Mauricio Santoro Rocha	<i>UERJ</i>
Miguel Flaksman	<i>Bocom BBM</i>
Nana Villa Verde	<i>CEBRI</i>
Nilson de Souza Brandão Junior	<i>CEBRI</i>
Paula Silva de Carvalho	<i>IBRACH</i>
Paulo Ferracioli	<i>FGV</i>
Raul Colcher	<i>PUC-RJ</i>
Roberto Abdenur	<i>CEBRI</i>
Rodrigo Moraes	<i>IPEA</i>
Sergio Freitas	<i>Bocom BBM</i>
Sérgio Quadros	
Tulio Cariello	<i>CEBC</i>
Valdemar Carneiro Leão	<i>CEBRI e IBRACH</i>

São Paulo

Keiichi Iwase	<i>Jetro</i>
Luiz Fernando Furlan	<i>CEBRI</i>
Luiz Felipe Trevisan	<i>Itaú Unibanco</i>
Michelle Ratton Sanchez Badin	<i>FGV</i>
Sergio Zappa	<i>CEBRI</i>
Zhang Xin	<i>CCPIT Brazil</i>

Brasília

Adriano Macedo Ramos	<i>Ministry of Economy, Brazil</i>
Bárbara Lopes	<i>SRI/CNA</i>
Carlos Henrique Angrisani	<i>Ministry of Foreign Affairs, Brazil</i>
Cecília Jorge	<i>Ascom/IPEA</i>
Cristiano Prado	<i>UNDP</i>
Deborah Rodrigues	<i>Ministry of Economy, Brazil</i>
Gláuco Oliveira	<i>Dinte/IPEA</i>
Ivan Oliveira	<i>Dinte/IPEA</i>
José Eduardo Brandão	<i>IPEA</i>
José Sebastião Santos	<i>IPEA</i>
Luis Felipe Giesteira	<i>Dinte/IPEA</i>
Luis Kubota	<i>IPEA</i>
Luiz Tironi	<i>Dinte/IPEA</i>
Marco Tulio Cabral	<i>Ministry of Foreign Affairs, Brazil</i>
Marcos Troyjo	<i>Ministry of Economy, Brazil</i>
Paulo Roberto de Almeida	<i>Ministry of Foreign Affairs, Brazil</i>
Renato Baumann	<i>SE/CAMEX</i>
Silvana Neves	<i>Dinte/IPEA</i>
Sofia Samurio	<i>Dinte/IPEA</i>
Tania Delfino Ribeiro	<i>Dinte/IPEA</i>

Beijing

Eduardo Chikusa	<i>Brazilian Embassy in Beijing</i>
Jin Canrong	<i>Renmin University of China</i>
Marcus Vinicius de Freitas	<i>China Foreign Affairs University</i>
Pedro Henrique Batista Barbosa	<i>Ministry of Foreign Affairs, Brazil</i>

Tatiana Prazeres	<i>University of International Business and Economics in Beijing, China</i>
------------------	---

Tatiana Rosito	<i>CEBRI</i>
----------------	--------------

Washington, D. C.

Carolina Costa	<i>McLarty Associates</i>
----------------	---------------------------

Claudia Trevisan	<i>SAIS/Johns Hopkins</i>
------------------	---------------------------

Kellie Meiman	<i>McLarty Associates</i>
---------------	---------------------------

Shanghai

Niu Haibin	<i>Shanghai Institute for International Studies</i>
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WHERE WE ARE:

Rua Marquês de São Vicente, 336
Gávea, Rio de Janeiro - RJ - Brazil
22451-044
Tel: +55 (21) 2206-4400
cebri@cebri.org.br



www.cebri.org