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# *How US-China rivalry is likely to play out in coming years*

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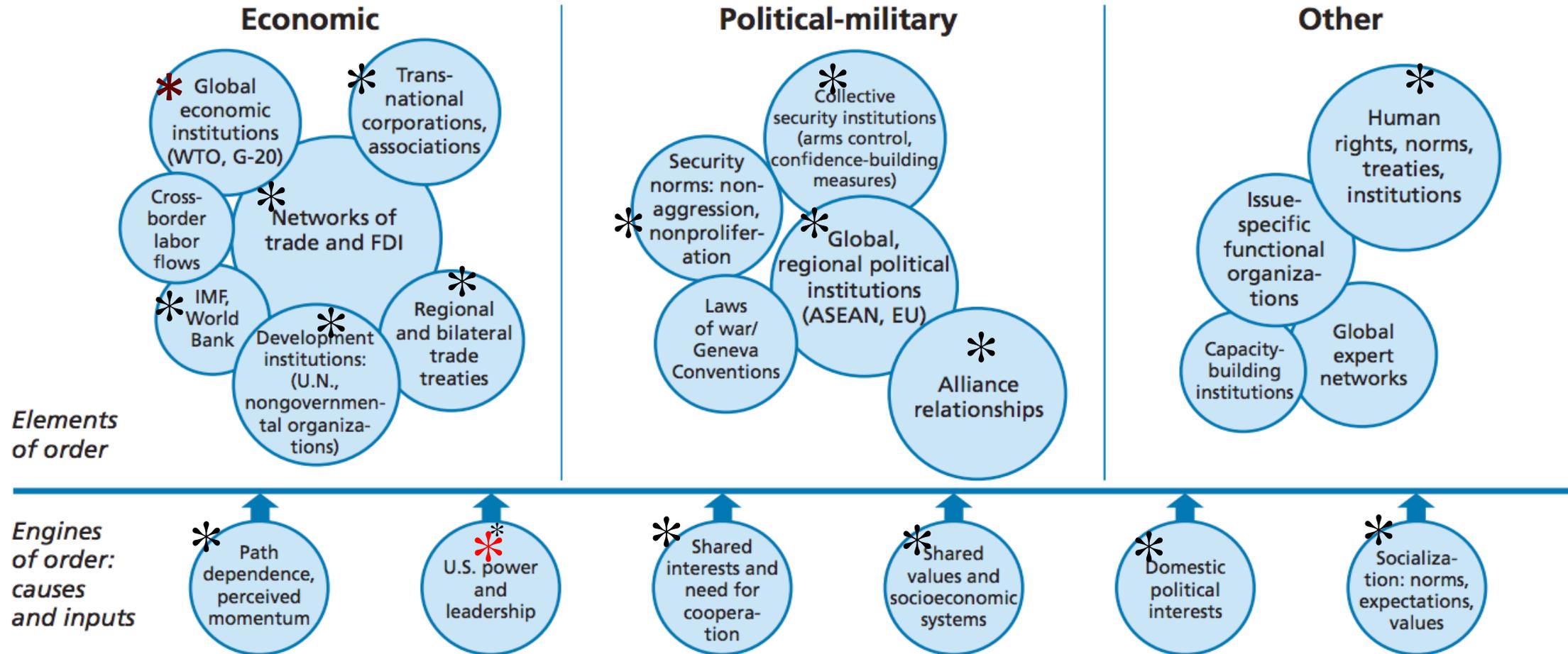
# *Bipartisan consensus on “All-of-society” pushback against resurgent China*

- *Pax Americana 2.0*
- *“Peace through Strength”*
- *Disillusion and Disappointment*
- *“Peaceful Rise” lost credibility*
- *Paranoia with threat to liberal world order*
- *Trade imbalance (\$506b v \$130b)*
- *Tariff imbalance (Average 7.5% (9.8% before 26.9.18) v US 3.4%)*
- *Non-level playing field*
- *“Mandatory” technology transfers*
- *Inadequate IP protection and perceived IP theft*
- *Government-sponsored acquisition of US IP companies*
- *State-sponsored SOEs*
- *State-sponsored “Made in China 2025” including AI*
- *Threats to US national security and global dominance*



# Perceived vulnerability to resurgent China

## Snapshot of the Elements and Engines of the Liberal International Order



NOTE: FDI = foreign direct investment.

# *The Hundred Year Marathon (3, February, 2015)*

## The Hundred-Year Marathon

CHINA'S SECRET  
STRATEGY TO REPLACE  
AMERICA AS THE  
GLOBAL SUPERPOWER



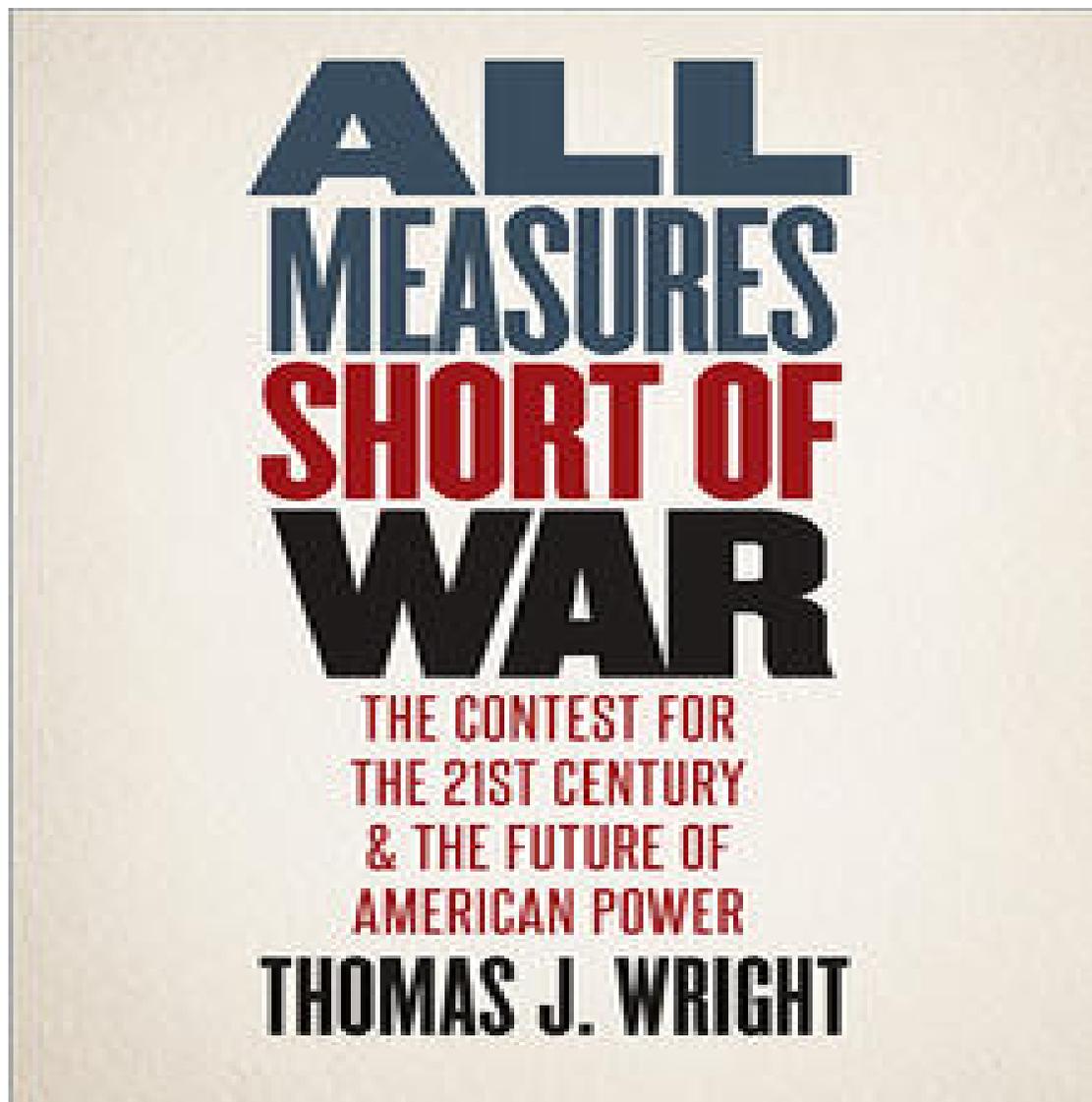
Michael Pillsbury

*For more than 40 years, United States has reached out to China, helping it develop a booming economy and take its place on the world stage, in the **belief that there is little to fear - and everything to gain - from China's rise.***

*But what if the Chinese have had a different plan all along? The Hundred-Year Marathon reveals **China's secret strategy to supplant the United States as the world's dominant power by 2049**, the one hundredth anniversary of the founding of the People's Republic.*

*The book draws heavily from the **Art of War** including deception and tactics during China's **Warring States**, and contains **conflated references** to “wu wei” 无为 equated to perceive IP theft and “assassin's mace” 杀手锏 exemplified by China's cyberwarfare and space-age military weaponry.*

## *All Measures Short of War (9 June, 2017)*



What will **great power competition** look like in the decades ahead?

Will the **liberal world order** survive?

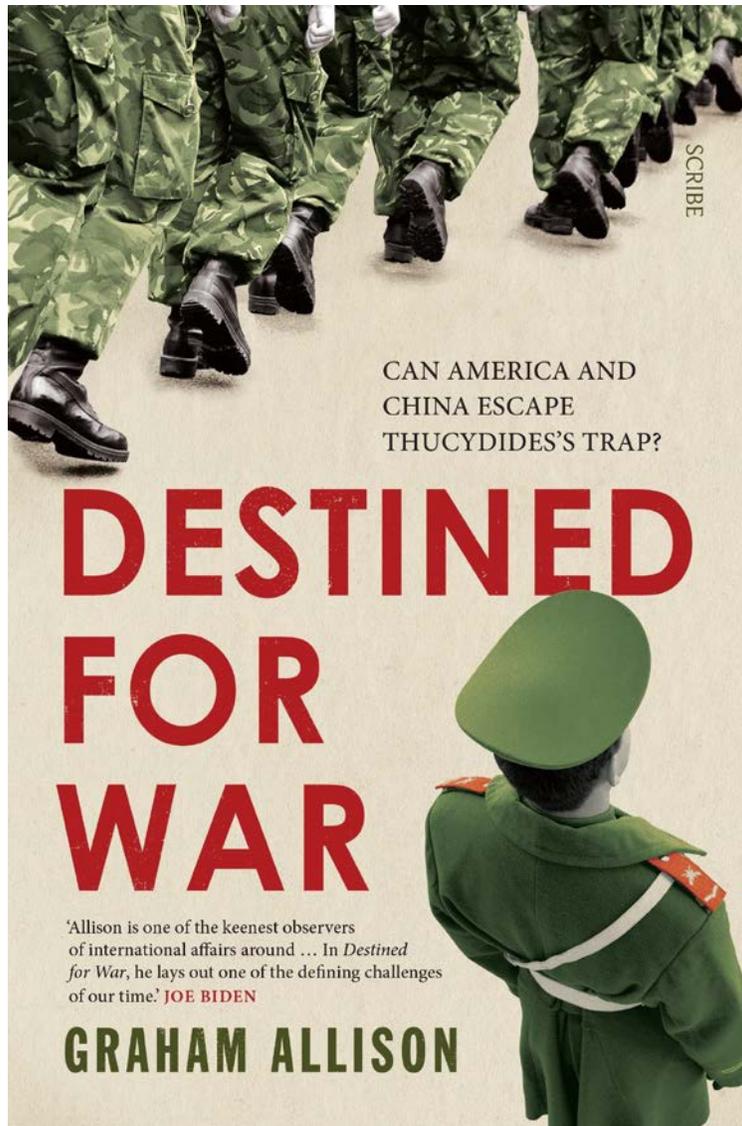
What impact will **geopolitics** have on **globalization**?

What **strategy** should the **United States** pursue to succeed in an increasingly competitive world?

Thomas Wright explains how major powers will **compete fiercely even as they try to avoid war with each other**.

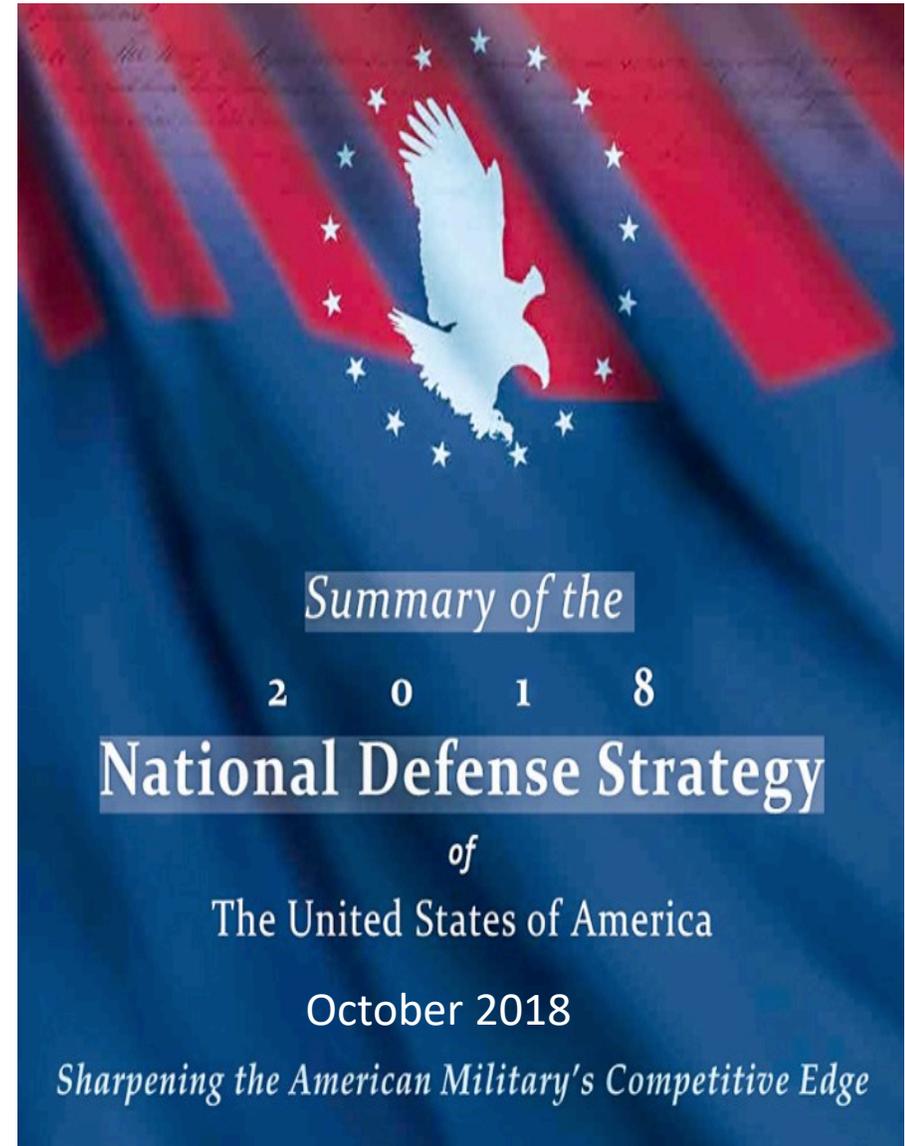
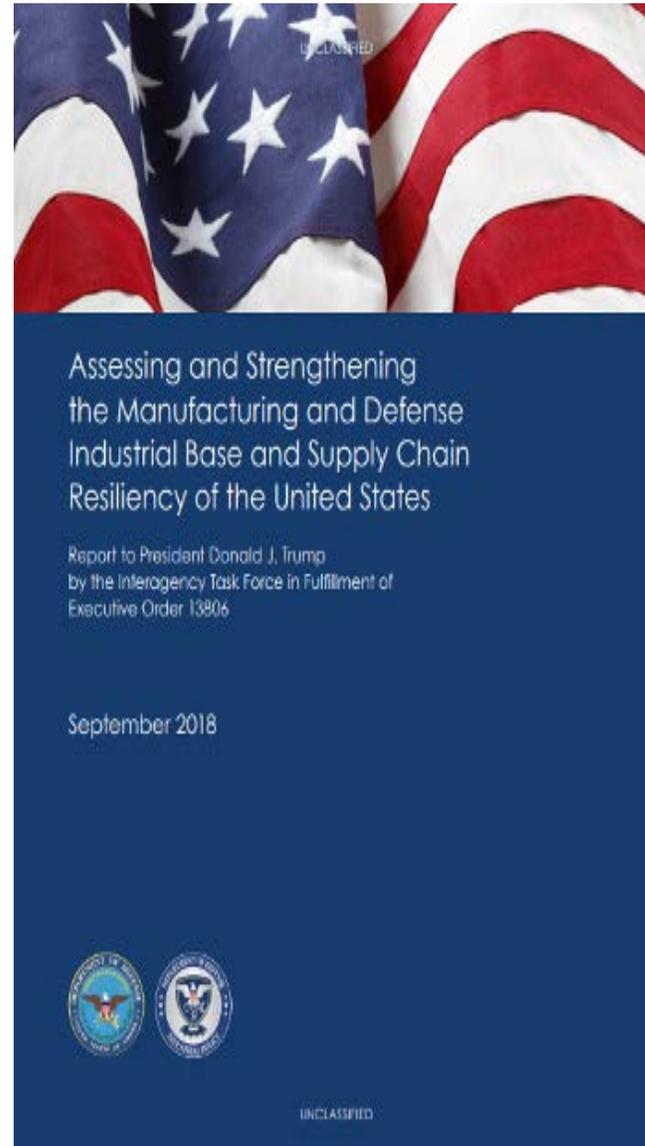
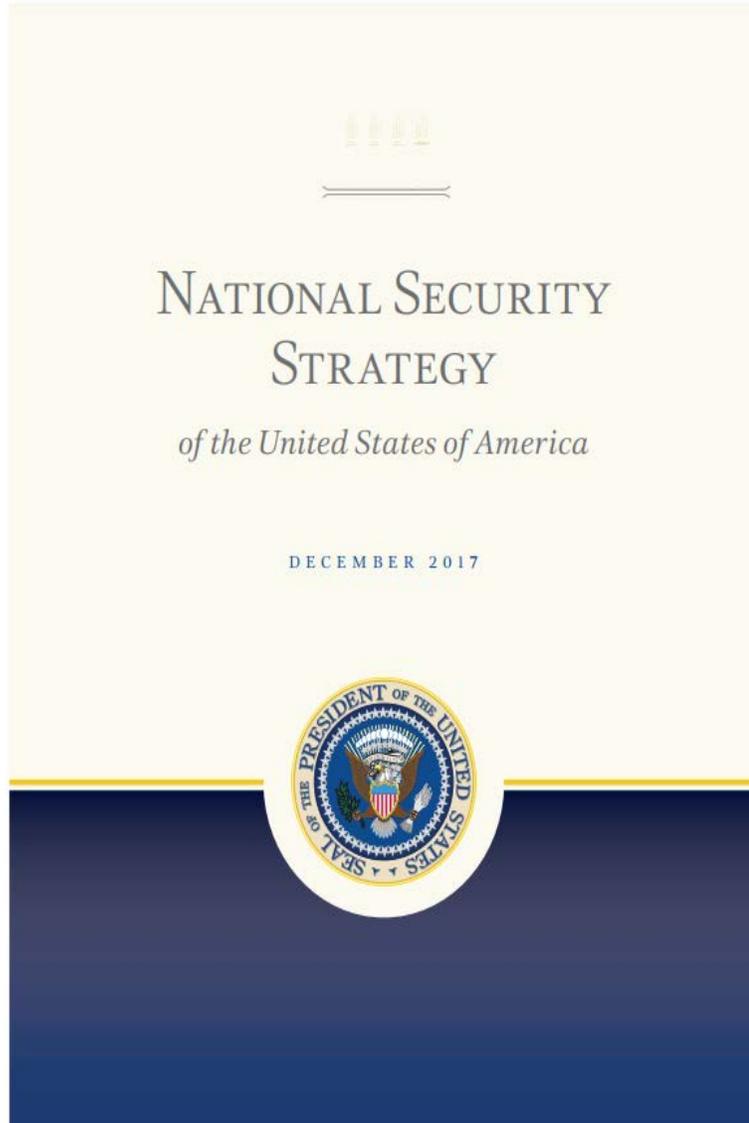
Wright outlines a new American **strategy**—**Responsible Competition**—to navigate these challenges and strengthen the liberal order.

# Thucydides Trap (13 July, 2017)



Nº	Period	Ruling Power	Rising Power	Domain	Result
1	Late 15 <sup>th</sup> century	Portugal	Spain	Global empire and trade	No war
2	First half of 16 <sup>th</sup> century	France	Habsburgs	Land power in western Europe	War
3	16 <sup>th</sup> and 17 <sup>th</sup> centuries	Habsburgs	Ottoman Empire	Land power in central and eastern Europe, sea power in the Mediterranean	War
4	First half of 17 <sup>th</sup> century	Habsburgs	Sweden	Land and sea power in northern Europe	War
5	Mid-to-late 17 <sup>th</sup> century	Dutch Republic	England	Global empire, sea power, and trade	War
6	Late 17 <sup>th</sup> to mid-18 <sup>th</sup> centuries	France	Great Britain	Global empire and European land power	War
7	Late 18 <sup>th</sup> and early 19 <sup>th</sup> centuries	United Kingdom	France	Land and sea power in Europe	War
8	Mid-19 <sup>th</sup> century	France and United Kingdom	Russia	Global empire, influence in Central Asia and eastern Mediterranean	War
9	Mid-19 <sup>th</sup> century	France	Germany	Land power in Europe	War
10	Late 19 <sup>th</sup> and early 20 <sup>th</sup> centuries	China and Russia	Japan	Land and sea power in East Asia	War
11	Early-20 <sup>th</sup> century	United Kingdom	United States	Global economic dominance and naval supremacy in the Western Hemisphere	No war
12	Early-20 <sup>th</sup> century	United Kingdom supported by France, Russia	Germany	Land power in Europe and global sea power	War
13	Mid-20 <sup>th</sup> century	Soviet Union, France, UK	Germany	Land and sea power in Europe	War
14	Mid-20 <sup>th</sup> century	United States	Japan	Sea power and influence in the Asia-Pacific region	War
15	1940s–1980s	United States	Soviet Union	Global power	No war
16	1990s–present	United Kingdom and France	Germany	Political influence in Europe	No war

# From “Strategic Engagement” to “Strategic Competition”



# All-out challenge and rivalry with China

- **Trade War** –

1. *More US goods to reduce imbalance*
2. *Level-playing field:*
  - ❑ *Tariffs*
  - ❑ *Market opening (finance, utilities etc)*
  - ❑ *IP protection including freedom from coercive practices*
  - ❑ *Government subsidies for SOEs*

- **Technology War** including 5G dominance

- ❑ *Government-backed “Made in China 2025) covering information technology, automated machinery and robotics, aerospace, marine equipment and shipping, advanced rail transport, new-energy vehicles, power equipment, agricultural machinery, new materials and biopharma and medical*
- ❑ *Whiff of Conspiracy? Recently, an award-winning American-Chinese quantum-computing scientist-cum-entrepreneur with Chinese business connections died suddenly. In Holland, a mysterious fire destroyed a US\$100 m cutting-edge equipment ordered by China for making sophisticated chips.*
- ❑ *Committee on Foreign Investment in the United States (CFIUS)*
- ❑ *ZTE -7 -year-ban on all American supplies, notably high-end chips*
- ❑ *Huawei – Arrest in Canada of Ms Meng Wanzhou, Deputy Chairperson and Chairman’s daughter; ban on US government funds for Huawei products and campaigning for Australia, Canada and South Korea, and now Germany, Italy and Japan to do likewise.*

- **Supply Chain War**

- ❑ *Encourage relocation of foreign businesses in China*
- ❑ *Disrupt and degrade China’s dominance in global supply chain*

- **Talent War** – *Chinese participation in US high-tech research, including universities, targeting China’s Thousand Talents Plan (TTP)*

- **South China Sea**

- ❑ *More frequent Freedom of Navigation Operations (FONOP)*
- ❑ *Deployment of more US battleships*
- ❑ *Expand role and capacities of US allies e.g. Japan, Australia, encouraging European allies e.g. UK, France*
- ❑ *Expanding Asia-Pacific to Indo-Pacific Command to link with security in Indian Ocean partnering with India.*

- **Taiwan**

- ❑ *More regular arms sale*
- ❑ *Normalization of high-level visits with US*
- ❑ *Naval patrols*

- **Space War**

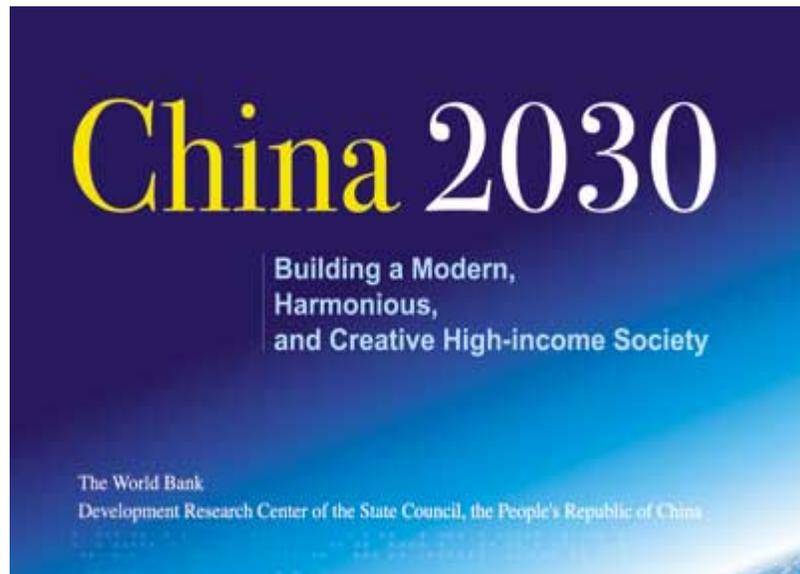
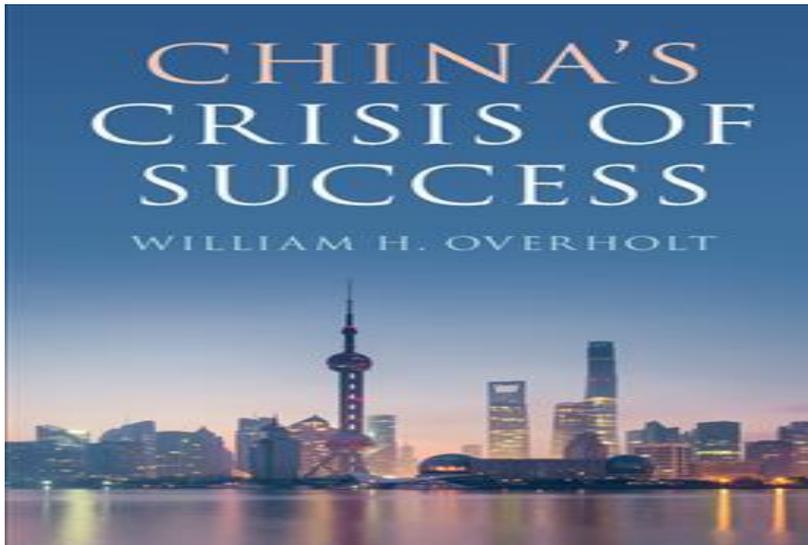
- ❑ *Nasa’s Mars InSight probe touched down on 26.11.18*
- ❑ *US Space Command to be set up (18.12.18)*

- **Ideology War**

- ❑ *Call for bipartisan investigation into human rights of alleged encampment of Uighurs in Xinjing.*
- ❑ *Threat of treating Hong Kong as Mainland China on signs of further erosion of autonomy and electoral freedom*

- **Danger of Neo-MCarthyism**

# China's "Crisis of Success" (28. 2. 2018)



- **Asia Society – Rhodium Group China Dashboard, Fall 2018 –**
  - ❑ **Third Plenum plan remains on balance in negative territory**, partially due to equity market implosion in August 2015, looser policies as balance against massive deleveraging, and preoccupation with anti-corruption campaign.
  - ❑ **Private sector share shrinking** in favour of SOEs V November 2013 call to “let the market play a decisive role in allocation of resources”.
  - ❑ **Cross-border investments still below 2013 levels**
  - ❑ **Innovative industries % industrial value-added approaching US level by end 2018 but at expense of level-playing competitiveness and IP governance.**
  - ❑ **Hard-won environmental progress had slipped** as authorities loosen grip to grapple with falling economic growth rates.
  - ❑ **Reform progress neutral (e.g. Financial System) or worsening (Fiscal Affairs, SOEs, Trade, Competition, Land, and Labor).**
  - ❑ **China still has a vast distance to go to catch up to rich world levels, but the prospect of relatively high GDP growth for decades is reasonable.**
- **China's Crisis of Success**
  - ❑ **Critical social issues e.g. inequality, corruption, environmental degradation, and globalisation.**
  - ❑ **Need to catch up with 2030 joint World Bank blueprint - Hukou reform; more inclusive growth - universal access to healthcare, education and housing; reining in local authorities (land grabs, irregular lending, corruption); SOE reform; financial system (market discipline); RMB full convertibility; Green economy; Responsible stake-holder in global order**

# China's short-term response

- *November retail sales decelerated to lowest rate in 15 years, despite record Singles' Day. Car sales, 30 % of goods sales, suffered first annual decline in over 20 years, dropping 6% in 2018.*
- *Export grew only 5.4%, short of forecast 10%; foreign investment fell by 27.6%; infrastructural investments decelerating.*
- *Trade war also having negative impact on US. Agricultural sector is hard hit; financial market is falling, and with Democrats-controlled House and government shutdown, political risks increasing.*
- *Central Economic Work Conference - Six Stabilizations – Employment, Finance, Investment, Foreign Capital, Foreign Trade, Expectations.*
- *2019 to spend 1.5 T RMB on infrastructure, including 3,200 km high speed rail (adding up to 30,000 km, far > rest of world combined) plus 3,600 km of rail.*
- *Incentives expected Q1 to encourage China's 1 billion consumers to buy cars (probably targeting electric vehicles) and home appliances.*
- *Mid-term lending facility (TMLF) to help private businesses.*
- *Moderate budget deficit to increase slightly from 2.6% to 2.8%*
- *Probably over-optimistic, Justin Yifu Lin, former WB chief economist, thinks worst-case scenario (no trade deal; US imposes 25% tariff on all of China's \$500 billion exports) would reduce China's growth by 0.5% v America's by 0.3%. He thinks China can achieve average 6.5% growth over next two years and average growth of 5.5 % 2020 – 2030.*
- *But much of reform needed coincides with US trade war demands (except definition of SOE subsidy and “Made in China 2025” technological upgrade. So a trade deal is probable.*
- *Modify “Made in China 2025” dominating objectives and refrain from trumpeting Belt and Road*

# *China's resilience for long-term reforms*

*China's resilience (1) massive rising middle-class (>300 m); (2) infrastructure (past 20 years > rest of Western nations combined) (3) effective and consistent long-term strategies; (4) catching-up on innovation e.g.*

- ❑ *2013—18, China publishes more scientific papers in 23 of 30 busiest fields than any other country, with 11% of the most influential papers during 2014-16. (The Economist, 12 January, 2019)*
- ❑ *China's world's first quantum satellite and first far-side lunar probe.*
- ❑ *Huawei leads world in 5G networks; 30% global market share as network provider; 10,000 doctorates including Russian mathematicians; staff with salaries > RMB5 million = > 1,000, numerous > RMB1 million; global staff 170,000 doing business overseas for 30 years in 170 countries; 45% staff engaged in R & D; annual profits > 20 x BAT; over 1.4 T RMB from overseas (unlike BAT); refused to be listed; some 90% of profits go to staff.*
- *Adversity as opportunity to push through much-needed reforms e.g.*
  - ❑ *April, 2018, foreign ownership limits in securities firms and mutual funds raised to 51%, to be lifted in three years*
  - ❑ *In August, foreign ownership limits on banks and other debt managers were removed.*
  - ❑ *In November, tax cuts for the private sector were outlined.*
  - ❑ *November 25, German Allianz cleared to be first wholly owned foreign insurance company, four years ahead of schedule for the rest.*
  - ❑ *November 30, UBS Group became first foreign bank for majority ownership in securities joint venture.*

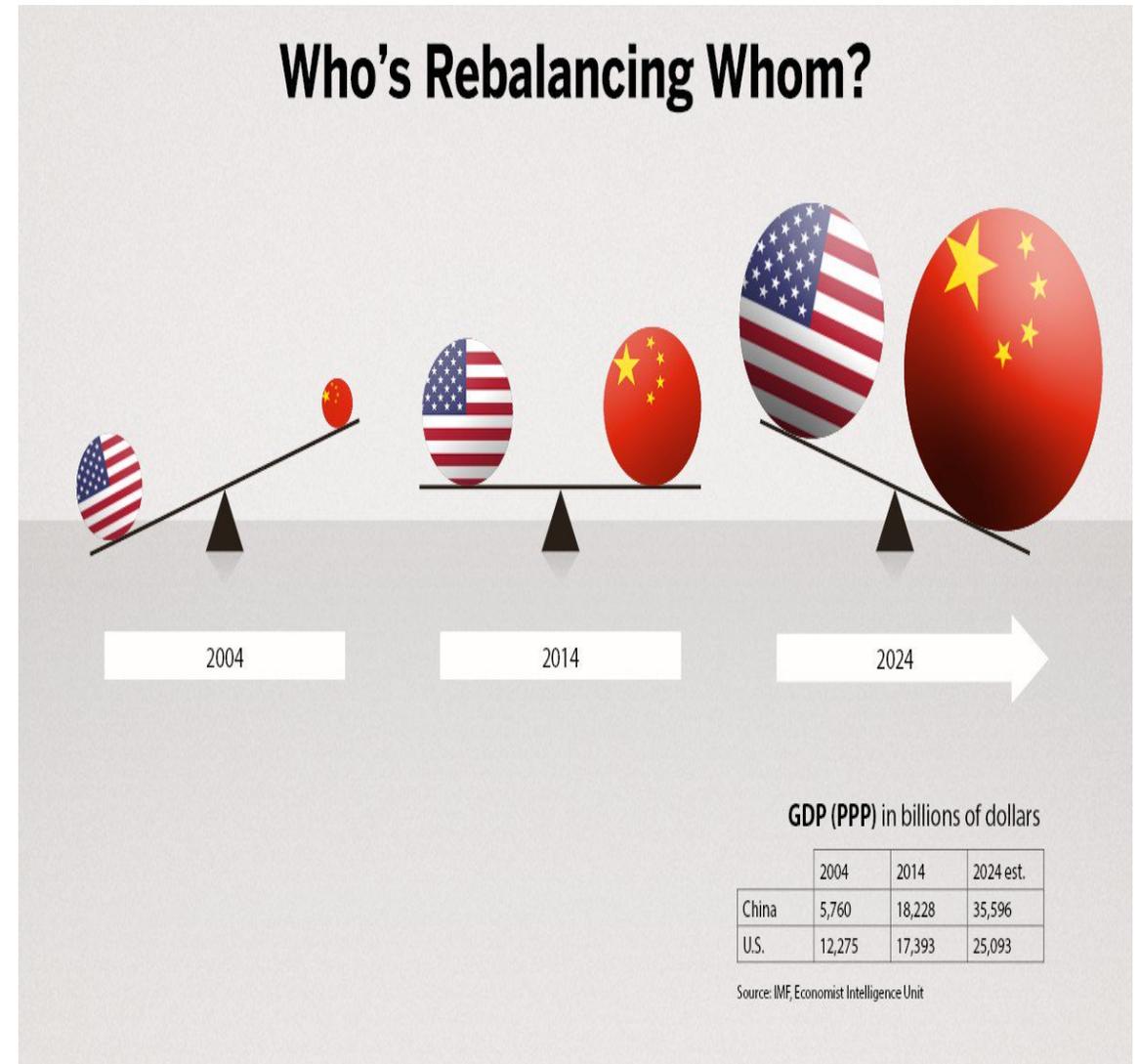
# China's comprehensive power v US

(Source: <http://news.sinovision.net/finance/201807/00442889.htm> 中国人民大学重阳金融研究院执行院长)

- 2017 – **Primary (agricultural) production 6 x US; Secondary (industrial) production 1.5 x US** – gap ever-widening
- 2018 – China > US as **world largest consumer market**
- World's **largest goods trader since 2013; largest trading partner of 130 countries** (twice over US)
- **40% of world's product categories originates from China (v US 15%)**
- 2017 – China's **internet-economy = 90 x US**
- US total GDP, services and finance ahead of China but China has **much higher growth rate and potential**
- US well leads in basic scientific and engineering research, e.g. biomedicine, computer chips. **China's technological investment = 80% of US**, world's second highest; since 2016 – **patents obtained well > US; China ahead of US in efficiency-oriented and customer-oriented technologies** e.g. infrastructure, high speed rail, domestic appliances
- Military – US well ahead. **China as third most powerful** at 1/3 of US military expenditure; but **importance of military dominance diminishes in globalized world**
- According to PEW Research, **more and more countries empathize with China's social stability, law and order, infrastructure, shared economy; 42% believe China more reliable v 12% for US**
- Overall, China has become US's nearest global competitor; but **unlike former times** e.g. USSR, China and US possess **both competitive and symbiotic** relationship; (me in you and you in me). Linked by > 600 billion bilateral trade, over 100 official communication channels, military exchanges, anti-terrorism cooperation, nuclear non-proliferation; climate change etc. with common interests > competition.
- With growing capabilities and global clout, China **no longer hangs to US coattails**.
- China's **Belt and Road** and narrative of "**Community of Common Destiny**" **gain greater acceptance than Big Stick and Small Carrot – America First coercion**. According to PEW, **74% of world people don't trust Trump; nearly half don't like US**. Philippines and South Korea and even some European **allies feel estranged** from US while China's influence is sought over Iran, trade and Climate Change.
- **China's people have learnt a lot** from War on Iraq, Financial Crisis, Snowden Affair, Syria Crisis, and the face of America in the current Trade War. **America no longer admired as the Beacon of Democracy**. As the post-90s enjoy dividends such as advanced products, media and fashion and other fruits of advanced countries. According to many independent surveys, **comparatively China is the country most trusted by its people for strategic direction**.

# *Strategic patience v US systemic divisiveness and short-termism*

- *US powerful with short-term conflict but lacks long-term consistency – China needs strategic patience.*
- *US needs external enemy to coalesce internal unity. Strategic yielding to US demands pays dividends.*
- *In final analysis, rivalry depends on how well each nation is led and governed – China to remain focused and steadfast towards its Two Centenary Goals - Well-off nation 小康社会 by 2021, centenary of founding of CPC; “Strong, democratic, civilized, harmonious, and modern socialist country by 2049, centenary of founding of PRC.*
- *As China is likely to continue to rise in multiple fields and its influence becomes even more global, including in America’s backyard, strategic cooperation with the US in a variety of fields becomes even more important.*



# Thank you

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Prominent international and independent China Strategist. Over 40 years' experience in senior Hong Kong Government positions. China Futures Fellow, Massachusetts Berkshire Publishing Group; Brain Trust Member, IMD Lausanne Evian Group; Gerson Lehrman Group Council Member; Thomas Reuters Expert; Senior Analyst with Wikistrat. Elected Member, Royal Society for Asian Affairs. Advisory Board Member, e-Centre, European Centre for e-Commerce and Internet Law. Think-tank Research Fellow, Beijing Normal University, Zhuhai Campus. Visiting Professor, London Metropolitan University Business School. Honorary President, China Hong Kong Economic and Trading International Association. Formerly Governing Council Member, King's College London; Advisory Board Member, China Policy Institute of Nottingham University; Visiting Professor, Sun Yat-sen University Business School (2005-10). In the 1980s, oversaw Hong Kong's industrial transmigration into Mainland China and helped launch Quality Campaign and Technology Centre. Invited by US government to month-long visit to brief Fortune 50 CEOs personally, including one-on-one with Steve Forbes of Forbes Magazine, on China post-1989. In 2002, invited by Prince Andrew for a private briefing leading to HRH's first visit to China as UK's Ambassador for Trade and Investment. Advised on cross-cultural management in Lenovo's take-over of IBM Computers. Invited as Editor-at-large for an international consultancy on China's energies. Regular contributor, commentator, and speaker on China at conferences and on live television worldwide including National Geographic. Topics include trade, finance, economics, geopolitics, international relations, science and technology, sustainable industrial development, and green cities. Graduate qualifications from University of London, postgraduate qualifications from Cambridge University, PMD from the Harvard Business School, and solicitors' qualifying examination certificate from the Law Society, London. Included in UK's Who's Who since 2002. Awarded Silver Bauhinia Star (SBS) in July 2005 Hong Kong Honors List.