

July 26, 2024

Volume 4, Issue 15

Online ISSN 2837-3863  
Print ISSN 2837-3855

## What's Been Happening

### 1 — China Vows Deeper Reform at Third Plenum, Western Observers Unimpressed — 1

#### [In One Sentence]

- From July 15 to 18, 2024, the 20th Central Committee of the Communist Party of China (CPC) held its third plenary session in Beijing.
- The session highlighted the CPC's commitment to "further deepening reform comprehensively to advance Chinese modernization" as well as its focus on important issues such as innovation, education, finance, domestic consumption, and national security, with the aim of fostering a high-standard socialist market economy by 2035.
- Critics in the West expressed their doubt regarding the third plenum's outcome particularly insofar as tackling China's near-term economic challenges, and argued that the meeting concluded with few signs of "fundamental economic reforms."
- China's economy faces challenges such as a crisis in the property sector, high local government debt, weak domestic demand, and lack of self-sufficiency in core technologies, leading to a downgrading of investor's confidence in the country's growth prospects.

#### [Mark the Essentials]

- To deepen reform and advance Chinese modernization, the CPC has vowed to build a "high-standard socialist market economy" with a "fairer and more dynamic market environment"; push for "high-quality development" and "all-around innovation" through new institutions and mechanisms that "foster new quality productive forces" and "talent development;" emphasize "coordinated reforms in fiscal, tax, financial" systems, and "equal exchanges and two-way flow of production factors" between urban areas and the countryside. Moreover, the plenum highlighted opening up as "defining feature of Chinese modernization."
- Unimpressed critics underscored that there were few signs of the third plenum representing a "major change" in the economic policymaking direction of the CPC. Some commentators also argued that the policy decisions are more "cliche" than substance and are mostly superfluous insofar as dealing with the current troika of sluggish domestic demand, property sector woes, and local government debt crisis.

- The IMF recently upgraded its estimation of China’s economic growth from the original 4.6% to 5% in 2024. Earlier, in March 2024 the Two Sessions of the National People’s Congress had set an annual growth target of “around 5%” for 2024.

**[Keeping an Eye On...]**

- China’s Big Man is also a big picture man who happens to be consummately aware of the complex challenges—‘principal contradictions’ in his words—facing China’s modernization ambitions. A succinct paragraph in Xi Jinping’s explanation of the Third Plenum’s Resolution on Comprehensively Deepening Reforms captures the essence of the challenge facing his country: *“The market system still needs improvement; the market itself is not adequately developed; the relationship between the government and the market needs to be further straightened out; our innovation capacity falls short of the requirements for high-quality development; the industrial system, while large in size and extensive in scope, is not yet strong or sophisticated enough; the over-reliance on key and core technologies controlled by others has not been fundamentally changed; the foundations of agriculture need to be further strengthened; wide gaps persist in development and income distribution between urban and rural areas and between regions; and weak links remain in improving the people’s wellbeing and protecting the ecological environment.”* The Resolution itself, coming in at 17,700 words, is remarkably detailed, compared to the drab 3,700-word Third Plenum Communique. From a policy programmatic perspective, two subsections in the resolution stand out. They are: (a) deepening scientific and technological structural reform (Item #14); and (b) deepening reform of the fiscal and tax systems (Item #17). The S&T sub-section provides the most thorough public exposition so far of the views of the Party leadership on the topic, both in terms of diagnosing the challenge that China faces and the proposed pathways forward. The purported self-sufficiency that is sought in terms of scientific and technological infrastructure is to be achieved through, both, a Party control tower-led top-down approach as well as flexible market incentives-based approaches that would be familiar to American S&T policy specialists. The fiscal and tax system subsection is the real ‘game changer’ element in the Third Plenum Resolution and is easily the most important outcome of the meeting. It includes arrangements to expand the sources of tax revenue at the local level and place more fiscal resources at the disposal of local governments while also granting the central government greater administrative authority and increasing the share of its expenditure in total government expenditure. Clearly, a good deal of thought and consensus-building has gone into drawing up this reform; this is not where the government was, policy-wise, even as recently as February. Implemented earnestly, these fiscal and intergovernmental tax reforms could be just as influential for sparking consumption-centered growth as the tax sharing system (TSS) reform of 1994—which did away with the perverse incentives of the 1980s-era fiscal contracting system—was for three decades of robust investment-led growth. On the other hand, some of the other proposed consumption-linked reforms, be it with regard to redistribution mechanisms and transfer payments, build out of the social security system, pushing out the retirement age, or reform of rural land ownership systems, appear to lack the needed detail or the required conviction and urgency. The obvious takeaway, then, is that China’s ‘excess savings’ will not be productively absorbed in the domestic economy anytime soon, and that it will remain a point of contention with trade partners for quite some time. As for the external sector, while high-standards opening-up is prioritized, so also is the prioritization of resiliency measures. The medical sector is a prime example. Medical services are to be opened more widely to foreign investors while medical equipment supply chains (along with those for integrated circuits, industrial machine tools, instruments, basic software, industrial software, and advanced materials) are to be subject to risk-controllable resiliency measures. In any case, the chief impediment on this external opening front is not

so much the lack of trade and investment market access (China is already a highly open economy) as much as the lack of a level playing field that implicitly favors local players at the expense of foreign businesses and, in the process, also ends up misdirecting capital for the most part to favored local players. As China's WTO trade policy review (TPR) report also notes, the aggregate scale of industrial subsidies are not easily quantifiable and tend to be doled out non-transparently. All-in-all, the Resolution on Comprehensively Deepening Reforms contains many useful reforms that are key to China's modernization prospects over the medium term. While foreign observers hoping for quick fixes to China's stumbling property woes or a 'big bazooka' stimulus injection to jump-start flatlining retail sales will be dismayed, the redesign of China's fiscal structure and system of taxation and the shift towards supporting household consumption (albeit at a slower pace than desired) bode well for the future. Ultimately, the proof of this pudding will be in its eating, i.e., in its implementation. The July 2024 Third Plenum Decisions should not be left to wither on the vine as was the case with the November 2013 Third Plenum Decisions.

### [Expanded Reading]

- [China's Third Plenum Embraces a 'New Development Philosophy'](#), *The Diplomat*, July 19, 2024
- [China economy: Key meeting offers few clues on how to tackle worsening downturn](#), *CNN*, July 19, 2024
- [CPC Central Committee adopts resolution on further deepening reform comprehensively](#), *Xinhua News*, July 18, 2024
- [China's Leaders Offer High Hopes, but Few Details for Road to Recovery](#), *The New York Times*, July 18, 2024
- [China Communist Party policy meeting endorses leader Xi's high-tech vision for economy](#), *AP News*, July 18, 2024
- [China calls for bolstering tech 'breakthroughs' and achieving the full-year growth target](#), *CNBC*, July 18, 2024
- [Xi's Big Economic Meeting Shows Party Bracing for Slower Growth](#), *Bloomberg*, July 18, 2024
- [China's Third Plenum does nothing to revive economy, observers say](#), *Voice of America*, July 18, 2024
- [Chinese Commodity Exports Surge in June on Sluggish Local Demand](#), *Bloomberg*, July 18, 2024
- [Xi to Map Out Vision for China Economy as Key Meeting Wraps](#), *Bloomberg*, July 17, 2024
- [China's third plenum: Xi Jinping tells party to show 'unwavering faith' in reform plan](#), *South China Morning Post*, July 17, 2024
- [IMF upgrades China's GDP growth forecasts but warns of risks ahead](#), *Reuters*, May 29, 2024

## 2 — GOP Formally Nominates Trump, Endorses his Trade Platform — 2

### [In One Sentence]

- The U.S. Republican Party formally nominated former President Donald Trump as the party's candidate for the 2024 presidential election.
- The Republican National Committee approved the 2024 GOP platform which closely mirrors former President Trump's trade policy plan to "rebalance trade," address "unfair foreign competition," and "secure strategic independence from China."
- Former President Trump recently defended high tariffs on China during a *Bloomberg* interview, arguing that tariffs such as the McKinley ones (Tariff Act of 1890) made the country rich and that tariffs make for good bargaining chips during negotiations.
- He also reiterated the importance of eliminating the goods trade deficit with China and for bringing manufacturing lines and employment back to the United States, expressing concerns that "China is building massive automobile plants" in Mexico.

### [Mark the Essentials]

- Robert O'Brien, a former national security adviser under Trump, recently wrote that Washington should decouple with China through high tariffs and tough export controls to weaken China's economy. Former

U.S. Trade Representative Robert Lighthizer has also repeatedly called for a strategic decoupling from China across a wide range of fields including trade, technology, investment, research and social media.

- During his Bloomberg interview, former President Trump said he “had no problems with China” but must take moves to address the trade deficit, stop the “rapid” decline of U.S. economic power, and develop domestic manufacturing, e.g. in automobiles. Trump also criticized Taiwan for taking “almost 100% of our chip industry” away and argued that Taiwan has become “immensely wealthy” through its semiconductor dominance at the expense of the U.S. The stock prices of several semiconductor companies, including TSMC, Tokyo Electron and Nvidia, fell following Trump’s criticism of Taiwan’s chips dominance and amidst concerns of tightened U.S. export controls on semiconductors.
- Close aides to former President Trump are reportedly drafting a policy plan to incentivize AI and emerging technology innovation by investing in the development of relevant military technology and deregulating “unnecessary and burdensome” rules that hinder AI innovation. Silicon Valley venture capitalists Marc Andreessen and Ben Horowitz recently endorsed Trump for the presidency, arguing that Trump’s policies best support tech startups and the innovation ecosystem while the Biden administration’s focus on safety standards and tests solely “enshrine” Big Tech and monopolies.
- The International Monetary Fund recently warned that the introduction of additional tariffs could lead to higher inflation, while two Peterson Institute economists argued that if Trump implements his plan to replace income taxes with tariffs, the move would “cost jobs, ignite inflation, increase federal deficits, and cause a recession.”

### [Keeping an Eye On...]

- In a race that will be settled in a handful of swing states, many of them decided by white, non-college educated, blue collar voters based outside large metropolitan centers, the Democrats have seemingly chosen to plump for a Californian progressive who identifies as black and, in the likely view—rightly or wrongly—of the aforementioned swing voter, is a lady who has probably never done an honest day’s labor with her hands. Good luck to the Democrats with their choice and her electability in Rust Belt America. Balanced against this, of course, is Donald Trump’s high unfavorability ratings with average voters. Be that as it may, it is time to take Donald Trump both seriously and literally. And certainly so for his trade policy priorities, including his championing of a *Trump Reciprocal Trade Act* if he is re-elected president in November. In July 2018, a Trump acolyte had introduced a *United States Fair and Reciprocal Tariff Act* that would provide the president the authority to “impose a rate of duty on imports of that good from [a] country that is equal to the rate of duty applied by that country” on a like U.S. good. Or in Trump’s words at the time, “fairness really.” The leverage of threatened tariff hikes would compel countries to come to the table and lower their tariff and non-tariff barriers on U.S. goods. The bill went nowhere at the time, generally viewed as something between quixotic and crackpot. That is not the case today. With WTO law-breaking now becoming routine in the practice of U.S. trade policymaking, a *Fair and Reciprocal Tariff Act* in 2025 is no longer the sort of overreach that was seen to be the case in 2018. And even if a President Trump does not possess the congressional majorities to have a *Fair and Reciprocal Tariff* bill brought to his signing table, he will enjoy extensive tariff proclamation authority to ratchet tariffs upwards. By contrast, the president enjoys limited authority to lower tariffs and that too entirely in the context of trade promotion authority which is currently lacking. Essentially, with or without declaring a national emergency, the President can avail of a number of (non-anti-dumping/countervailing/ safeguards duties-related) statutes to increase tariffs. These include: Section 5(b) of the Trading with the Enemy Act (TWEA) of 1917; Section 232(b) of the Trade Expansion Act

of 1962; Sections 122, 301, 604 of the Trade Act of 1974; and Section 203(a) of the International Emergency Economic Powers Act (IEEPA). So long as the president acts within the (wide) scope of his congressionally delegated tariff-raising powers on the basis of an “intelligible principle” that bears a “reasonable relation” to the task at hand, courts will not second-guess the president’s methods and measures. Invocations of a “national emergency” are dime-a-dozen too, with 79 such declarations, as of February 2024, invoked under the *National Emergencies Act* since its enactment in 1976 (70 of those declarations utilized IEEPA authority thereafter). And it bears remembering too that President Nixon had utilized his TWEA-based authority (IEEPA’s predecessor) to impose a 10% tariff on all imports into the United States in 1971, which was subsequently challenged but upheld in court. Trump has threatened a similar across-the-board tariff on all foreign imports, plus higher rates for Mexico and China. All said and done, tariff increases are on their way, one way or another. And if a *Fair and Reciprocal Tariff Act* is enacted, it will also bring the curtains down on 90 years of U.S. trade policy liberalization that started with the landmark, Depression-era *Reciprocal Trade Adjustment Act of 1934*. On trade, it’s time to take Trump both seriously and literally.

#### [Expanded Reading]

- [Chip stocks tumble on fears of China tech curbs, Trump's Taiwan remark](#), *Nikkei Asia*, July 18, 2024
- [Trump On What He'd Do With Taxes, Tariffs, Jerome Powell and More](#), *Bloomberg*, July 16, 2024
- [Trump Campaign Reaps \\$3 Million in Crypto, From Bitcoin to Dogecoin](#), *The Wall Street Journal*, July 16, 2024
- [Trump allies draft AI order to launch 'Manhattan Projects' for defense](#), *The Washington Post*, July 16, 2024
- [Fresh Tariffs Could See Interest Rates Stay Higher For Even Longer, IMF Warns](#), *The Wall Street Journal*, July 16, 2024
- [2024 Republican Party Platform](#), *The American Presidency Project*, July 8, 2024

### 3 — Unpacking J.D Vance’s Stance on China Trade and Technology — 3

#### [In One Sentence]

- Former U.S. President and GOP presidential nominee Donald Trump announced that J.D. Vance, U.S. Senator from Ohio since 2023, will be his vice-presidential running-mate.
- During his first interview as Trump’s Vice President nominee, Senator Vance said that China is “the biggest threat” to the United States and the “real issue” to focus on.
- Vance also told the Republican National Convention that he intends to “protect the wages of American workers” and “stop the Chinese Communist Party from building their middle class on the backs of American citizens.”
- Tesla CEO Elon Musk, tech entrepreneur David Sacks and several tech investors applauded Trump for choosing Vance as his running mate, but some commentators expressed concerns over Vance’s criticism of Big Tech and Wall Street and cautioned for consequent market impacts.

#### [Mark the Essentials]

- Some commentators argued that with J.D. Vance picked as the Vice President candidate, the Republican Party will be able to demonstrate greater policy continuity even after the ending of a potential second Trump presidency, including in the fields of U.S.-China relations. Vance has generally supported Trump’s policy agenda of imposing high tariffs on China to address “cheap Chinese goods” and protect American workers from Chinese manufacturing. Similarly, echoing Trump’s statement that Taiwan needs to “pay [the U.S.] for defense,” Vance said that U.S. allies could no longer “free ride” on U.S. support.
- Analysts have expressed varied views about the Trump-Vance China agenda. Some support a future Trump-Vance administration’s heightened focus on China as necessary and out of acknowledgement of the

new geoeconomic realities. Others caution against a “China-only” focus and argue that U.S. commitments in Europe and the Middle East are essential to competing with China globally.

- While the Republican Party has long supported deregulation and corporate tax cuts, there are signs that a Trump-Vance administration might not necessarily embrace policies favorable to big companies and multinationals, and Vance has previously voiced support for current Federal Trade Commission head Lina Khan’s antitrust agenda against Big Tech.

**[Expanded Reading]**

- [What Vance gets wrong about the China challenge](#), *The Washington Post*, July 19, 2024
- [Could a Trump-Vance win reshape America’s relationship with China – and Taiwan?](#), *CNN*, July 18, 2024
- [JD Vance blames U.S. wage losses on China’s efforts to build its middle class](#), *CNBC*, July 18, 2024
- [Trump-Vance ticket sets stage for years of China arm-twisting](#), *Nikkei Asia*, July 17, 2024
- [Trump’s VP pick JD Vance calls China the ‘biggest threat’ to the US](#), *Semafor*, July 17, 2024
- [What would a Trump-Vance economic agenda look like?](#), *Financial Times*, July 17, 2024
- [Trump’s VP pick Vance could have a market impact if they win—Beware Meta and Alphabet](#), *CNBC*, July 16, 2024
- [Trump’s VP pick Vance points to tough China policy, analysts say](#), *Reuters*, July 16, 2024
- [From Elon Musk to David Sacks, Silicon Valley’s Trump Backers Cheer Vance as VP Pick](#), *Bloomberg*, July 15, 2024