

# Xi Jinping's Trade Conundrum

## Why the Chinese Leader Isn't About to Back Down

By Christopher K. Johnson

A month after American and Chinese negotiators failed to seal what was supposed to be a “slam dunk” of a trade deal, observers on both sides of the Pacific are still scratching their heads over what went wrong. But in Washington and Beijing, leaders already appear to be gearing up for a longer-term struggle, making a true deal—one that resets rapidly deteriorating bilateral ties—increasingly elusive.

In the U.S. news media, most commentators have blamed China for the recent effort's collapse. At the last minute, this analysis suggests, China reneged on terms that U.S. Trade Representative Robert Lighthizer and his Chinese counterpart, Vice Premier Liu He, had painstakingly hammered out over 11 rounds of tough, often heated negotiations. Among the many competing hypotheses for China's seemingly abrupt about-face, one has gained particular credence, and that is that unidentified “hawks” or “vested interests” in the Politburo of the Chinese Communist Party (CCP) rejected the concessions that Liu—and by extension his boss, Chinese President Xi Jinping—made in the negotiations. But this notion is simply absurd.

In his nearly seven years in office, Xi has relentlessly centralized decision-making authority in his hands. He has manipulated the military, the security services, and the CCP's propaganda machine to silence his opponents and effectively coup-proof his rule. Doing so has allowed him to pursue an assertive style of Chinese statecraft, one less awestruck by American power than in the past. In a revealing moment on a recent trip to Jiangxi Province, he invoked the spirit of the Long March, the almost mythical retreat of the Chinese Red Army that preceded its triumph, to declare that every generation of the CCP leadership must face its own revolutionary test. The coming struggle with the United States, he implied, is the test that the current generation must weather under his stewardship.

Against this backdrop, the idea that hard-line underlings could have pulled Xi's policy toward the United States off course isn't just wrong-headed—it's dangerous for U.S. policy. Those who believe that Xi can be bullied by hard-liners must also imagine that he is on the defensive, if not on the ropes, at home and as such is unable to return to the original terms of the trade deal. If that were true, the United States would have little incentive to do anything other than retaliate against the Chinese for backtracking. Unfortunately, it's false, and the Trump administration's recent decision to add the Chinese telecommunications giant Huawei to a Department of Commerce trade blacklist will only set the negotiations back further.

Xi very likely orchestrated the turnabout himself. Such a move would make sense, given that **within the CCP's unique ecosystem, leaders generally gain more by outflanking hard-liners than by siding with reform-minded technocrats.** In fact, Xi has made seizing the nationalist high ground—in order to deny it to his opponents—a hallmark of his rule. Xi likely shifted China's negotiating posture in order to stall the talks, which gives him leverage even while he retains the flexibility to return to the negotiating table whenever he believes the conditions are right. By

unleashing its own hawks, the Trump administration has actually made such a pivot much more complicated.

## **BOUND TOGETHER, LIKE IT OR NOT**

Understanding Xi as fully in command, rather than as having been outplayed by hard-liners within the Politburo, sheds useful light not only on the collapse of the trade talks but also on the direction of China's domestic and foreign policy.

Xi has two competing—and possibly contradictory—impulses when it comes to managing the trade dispute with Washington. On the one hand, he wants to show that China is no longer the weak and backward country that suffered a “century of humiliation” at the hands of Western and Japanese imperialists. Rather, it has become a strong, confident, and modern power. On the other hand, Xi is fully aware that China is struggling to manage its transition from an old, dirty, and industry-heavy economy to a twenty-first-century knowledge economy. Such a transition will inevitably cause substantial economic dislocations, which risk disrupting the country's seemingly smooth and inexorable rise. But any prolonged setback runs the risk of increasing Chinese dependency on the United States at a time when Washington's trade policies are particularly unfriendly.

In depicting China as a great power on the world stage, Xi seeks to reframe the larger narrative of the CCP and its leadership of the country. In his view, China's public image as a meek nation struggling to rise from the ashes of the Cultural Revolution had its purposes during the last quarter of the twentieth century and the beginning of the twenty-first, but no longer. China has entered a “new era,” Xi has claimed. It should now be comfortable basking in the glory of its multimillennia cultural heritage and claiming its rightful place as a major global player. At the same time, Xi wants to telegraph that China is and always will be a socialist country and that the CCP has found a third way between communism and capitalism—“Socialism with Chinese Characteristics”—that works for China and perhaps for others.

By proclaiming a new era, Xi has justified his departure from the party's tradition of collective leadership. His retelling of the story of modern China effectively erases his two immediate predecessors—the torchbearers of the consensus-driven system bequeathed by Deng Xiaoping—from history. And in positioning himself alone next to Mao Zedong in the party's ideological pantheon, he has legitimated the sum of his actions and pronouncements to date. Any attack on him, he can now claim, is an attack on the CCP.

But Xi's ideological gymnastics come at a cost. The CCP already bases its legitimacy on performance, and in particular on its capacity to break through the “middle-income trap,” the plateau where economic theory holds that a country's development can get stuck for structural reasons. Xi's claim that he is leading the country into a new era places additional pressure on the party to deliver real improvements in living conditions—and fast. But the United States dominates a number of industries that are essential to building a modern high-tech economy, most notably the semiconductor industry, and as a result China cannot completely control its own destiny. The Trump administration erased any doubts on that score when it issued Commerce Department denial orders against China's two leading telecommunications companies, ZTE in April 2018 and Huawei in May. Blocking the companies' access to critical U.S. components threatens to hobble China in its bid to develop 5G and other technologies that will prove foundational in the future. And therein lies the central contradiction of Xi's new

narrative. For all the talk of self-reliance, China remains dangerously dependent on American technology and trade to fuel its continued growth and prosperity.

### **HEDGING CHINA'S BETS**

So how should we expect Xi to try to escape—or at least manage—this contradiction, especially under what may be sustained U.S. pressure? To begin with, he will seek to maintain stability and minimize risks both at home and abroad. But he will have to contend with the fact that most of the CCP's theorists and international relations specialists see conflict between the Western “rules-based” international order and China's unique form of state capitalism as inevitable. U.S. distraction after the 9/11 terrorist attacks and during the global financial crisis of 2008–09 may well have delayed that conflict by nearly two decades, the thinking goes, but Washington has now become hostile, and China must respond sharply.

The logic these theorists propound broadly aligns with Xi's emphasis on promoting China's newfound strength abroad. But the Chinese president seems to advocate a cautious course that will push the clash with the United States as far into the future as possible—and in so doing preserve maximum policy flexibility for China. Domestically, Xi has guarded his ideological flank well in recent months by expounding a narrative in which the CCP faces proliferating risks of growing intensity. His proposed response—“struggle”—signals that he will not shrink from these dangers. Nevertheless, he has refused to confront the United States directly and in fact seems to avoid actions that will cast the bilateral relationship asunder just yet. As he [said](#) at the St. Petersburg International Economic Forum earlier this month, he “can hardly imagine a complete decoupling between China and the US,” something neither he nor, he believes, his “friend” President Donald Trump wants to see happen. These words were a stark reminder of what Xi's unrivaled domestic strength allows him: the latitude to transcend the hard-line messaging of his own propaganda machine whenever he deems prudent.

But Xi is far too wily to risk relying on an unpredictable U.S. president. By stressing self-reliance and the indigenous pursuit of technological innovation, he has prepared the ground for a sharp inward turn should one become necessary. To this end, he has subtly reframed long-held principles of the CCP to suggest that China now shapes its external environment through its success and growing power. Whereas in the past the party cast the country as the passive beneficiary of good fortune on its periphery, today Xi presents China's “economic miracle”—credited solely to the party's vision and the people's hard work and sacrifice—as the driving force behind a stable and secure international order.

The self-reliance Xi describes has ramifications beyond China's borders. For if he can't salvage the bilateral relationship with the United States, Xi will try to make sure that China can hold its own in a global contest for spheres of influence. Since the beginning of Trump's presidency, Xi has sought to paint China as the new defender of multilateralism and global free trade, as the United States shuns such concepts in favor of “America first.” At the same time, Xi has cast China as one more victim of U.S. “trade bullyism,” a term likely to resonate with those unnerved by Trump's recent threats against Mexico and others. If China can persuade much of the rest of the world that the United States is the more renegade and disruptive power, perhaps Xi can buy China enough time to complete its rocky transition to a knowledge economy.

To position himself in this way—cautious toward the United States but not passive, flexible but ideologically impregnable, self-reliant but outward looking—will require a grace akin to walking a tightrope. What if he falters and is forced to make difficult choices? Here the possibilities grow

increasingly stark. If the United States remains persistently hostile and other powers continue to equivocate, Xi might embrace a toothy nationalism such as Russian President Vladimir Putin's in order to distract his public from the economic deprivations likely to accompany international isolation. Alternatively, he could use his immense domestic power to force through radical reforms that allow China successfully to escape the middle-income trap. By so doing, he would shore up CCP rule. But either of these choices would mark a sharp course correction on the part of the world's emerging great power (and its second-largest economy), and either would deal a disruptive shock to the global economy and order.

## **UNINTENDED CONSEQUENCES**

How the United States responds to China's approach will be just as important as the approach itself. Given the cataclysmic risks of conflict between the two countries, Washington should first observe the principles of doing no harm and guarding against unintended consequences. U.S. efforts to break—or even hobble—Chinese tech giants could backfire, both with China and with other major powers. Because Xi and his Politburo colleagues cannot open China's political system, and therefore refuse to consider reducing the state's control of the economy, they will continue to depend on authoritarian instruments such as subsidies and coercive regulation. As a result, the Trump administration's actions could actually force China to double down on the very state-driven policies the United States wants it to eliminate.

The United States further risks damaging its power and credibility abroad by requiring its partners to make a Hobson's choice between Washington and Beijing. The campaign against Huawei may well prove to be a case in point. If allies such as the United Kingdom, Germany, Japan, and South Korea refuse U.S. entreaties to ban Huawei equipment from their telecommunications infrastructure, the United States will emerge looking weak. Given the very real security concerns about the independence and privacy of a Huawei 5G network, the United States could then suffer even greater damage to its credibility than it did when the Obama administration failed to stop China from establishing the Asian Infrastructure Investment Bank in 2016. In the latter case, several allies broke with Washington and joined the bank, sending Beijing all the wrong signals about the efficacy of establishing institutions parallel to those the United States and its allies built after World War II.

Before embarking on an even tougher course, the Trump administration should ask itself which, if any, Chinese ambitions it can reasonably accommodate. Such a determination may seem like an obvious point of departure, but nothing in the White House's behavior toward China suggests that it has taken this fundamental step. If the answer is "none," then the United States and China may well be destined for conflict. But if there are areas open for negotiation, then the Trump administration should convey that to the Chinese leadership clearly and at a high level. The same should go for those Chinese ambitions that the Trump administration decides it cannot accommodate: these should be clarified as redlines.

In the end, Xi's decision to backpedal on the draft trade agreement can be explained by the contradiction at the heart of the new narrative he is spinning for China. The path to economic independence—and to the prosperous new era Xi has promised—runs through the United States and its high-tech industry. As a result, Xi must steer a difficult political course, one best navigated from the nationalist high ground. But instead of giving him a chance to climb down, the Trump administration risks forcing him to dig in.