

The 'enemies' are at home

BY BUNN NAGARA

NOT too long ago, the talk among US and China watchers was of a prospective trade war.

Flexing his populist credentials, President-elect Donald Trump had been bitter about the enormous US trade deficit and what he called China's "currency manipulation".

Tough words were exchanged between Washington and Beijing as a noisy sideshow to the US presidential election. Last December, Trump even questioned the US' one-China policy after Foreign Minister Wang Yi scolded him for daring to take a congratulatory call from Taiwan.

All these were grist to the sensationalist gossip mill. However, the reality of the G2, or "Chinamerica", has always been more complex and less confrontational.

The US and China are not only the world's two biggest economies, but the nature of their economic relationship is more complementary than competitive.

They are at different levels of development and represent vast markets to each other.

Thus the recently concluded "informal summit" in Florida between Presidents Xi Jinping and Trump was not only geopolitically important but geo-economically significant. It was also sociologically interesting.

At one level, both leaders come from vastly different political cultures.

Trump's is the North American ideal of the capitalist free market, while Xi's is the modernist interpretation of Maoist state socialism.

But Trump is the maverick conservative with an affinity for protectionism. And Xi is the latest in more than a generation of Chinese leaders who have embraced capitalism and globalisation.

Neither leader is a classic example of what they are supposed to be based on where they are from. Xi adds a further twist to the post-Dengist leadership style with a supposed nod to retro Maoism. Add to this, the way today's China leads with global commercial activism instead of ideology or politics. And Trump himself represents probably the most business-minded presidency the US ever had.

These personality distinctions are important because they deeply inform each leader's policies. It comes from having a dominant character that defines the orientation of their Cabinets.

Xi has the staid cool determined by formal procedure and official protocol. Trump has the mercurial temperament of one hooked on a cocktail of adrenaline and testosterone.

How these personal traits shape their policies remains to be seen.

For now at least, their respective national interests and priorities are front and centre.

For the US, the main issues with China are economic. These include the yawning US trade deficit, which covers the balance of trade with China and jobs (or lack of) in the US. The US also accuses a range of trade partners from China to Germany of currency manipulation. These countries in turn say the US can solve the problem by simply making its exports more competitive.

For China, one way to get around the problem is to invest more Chinese funds in the US, which would include buying more US companies. Another way is for China to buy more US technology.

However, some of Trump's advisers seem to be making solutions with China difficult. They oppose both options.

Nonetheless, such positions are not set in stone in the Trump White House. There is a prospect of Trump softening on deals with China with more inputs from some of his other advisers.

Far from a trade war between Washington and Beijing, a civil war over trade policy has been brewing within the Trump administration itself.

This regime began by boasting such controversial picks as China-bashing trade hawk Peter Navarro, head of the National Trade Council, and chief White House strategist Stephen Bannon.

They want to radically remake Washington and drastically restructure US economic relations with China. Naturally, opposition to them and their plans soon grew.

In the opposing corner are Gary Cohn, head of the National Economic Council, and Treasury Secretary Steven Mnuchin. Both are Wall Street veterans and Goldman Sachs alumni, seasoned with experience rather than driven by pet peeves.

They are allied with National Security Adviser (NSA) Lt-Gen HR McMaster, Deputy NSA (Strategy) Dina Powell, and – crucially – Senior Advisor to the President and Trump's son-in-law Jared Kushner. Result: Navarro has been sidelined almost as soon as the administration got going, and Bannon has followed in recent weeks. Bannon further confirmed his secondary status by reportedly attacking Kushner personally.

To Navarro-Bannon, they are being outflanked and betrayed by "globalists", "liberals" and "Democrats". Cohn is a card-carrying Democrat but became a career appointee for his professional skills.

The difference between the two camps is that of reasonable moderates versus wild-eyed radicals.

Navarro's other liability is that some of his views on China trade are out of date by a decade or more. As for Trump loyalist Bannon, ironically his style has become a liability for Trump in losing popular appeal.

Frustrating setbacks on immigration and healthcare reform proposals have deepened the rift, to Navarro-Bannon's disadvantage.

Some other senior players with Trump's ear are Commerce Secretary Wilbur Ross, Trade Representative Robert Lighthizer and White House Chief-of-Staff Reince Priebus.

They have on occasion been seen as allying with one camp or the other, or just being in the middle. Despite all the sound and fury that had been the Trump administration's birth pangs, the realities of the world and of governance itself are reasserting themselves.

Ross and Kushner, among others, have substantial business interests with China from shipping to property. The omens indicate that Trump policies on China will be more restrained than radical.

In all of Trump's concerns involving China – the US trade deficit, valuation of the renminbi, reining in North Korea – China's cooperation is needed. Trump and Xi have a new respect for each other, based on the lesson that scolding does not work.

Trump has directed his staff to study the reasons for the US deficit to develop real solutions for it. This will form part of substantive reforms in the US relationship with its major trading partners going beyond mere rhetoric.

By the time Trump takes up Xi's invitation to visit China, both men will be ready to issue a joint statement to declare a new deal between them. They have already agreed to evolving "a new type of major power relationship" that will be an upgraded G2.

The maturing of the Trump administration is seen by his personal transition from Candidate Trump to President Trump. What has followed is the change in his choice of close advisers as well.

A similar change has been happening in China, if on a smaller scale. The earlier heated exchanges with the US involving Foreign Minister Wang Yi have been smoothed by the quiet diplomacy and damage control of State Councillor and former Foreign Minister Yang Jiechi.

Yang's behind-the-scenes (and Secretary of State Rex Tillerson's) work produced the early Trump-Xi informal summit.

Reports from Beijing for foreign consumption usually cite Yang as outranking Wang.

Meanwhile, an impetuous Pyongyang launched another missile test just hours before Xi's arrival in Florida for his first meeting with Trump. The KN-15 medium-range Scud missile reportedly failed and spun out of control off North Korea's east coast.

The effort was not enough to alarm any country seriously other than North Korea itself. However, it provided just enough of a reminder to the US and China that they need to work more closely together.

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