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Sources and analysis by Reuters appears to have been caught off guard by President Donald Trump's protectionist trade blitz and that it underestimated rising anti-China sentiment among the U.S. elite. | Getty

# Did China think Donald Trump was bluffing on trade? How Beijing got it wrong

By WENDY WU and KRISTIN HUANG | SOUTH CHINA MORNING POST | 07/26/2018 01:30 PM EDT

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The ruling Communist Party's tightened control over think tanks and a crackdown on extravagance could be having an impact on how the leadership handles foreign affairs — and weakening Beijing's understanding of U.S. politics under President Donald Trump.

Sources and analysts say Beijing appears to have been caught off guard by Trump's protectionist trade blitz, and that it underestimated rising anti-China sentiment among the U.S. elite.

Even last month when U.S. Commerce Secretary Wilbur Ross visited Beijing, some in the capital were still hoping Washington could be persuaded not to go ahead with its threat to slap punitive tariffs on goods from China.

But the U.S. was not convinced, imposing 25 percent duties on U.S. \$34 billion of Chinese products from July 6 — prompting Beijing to do the same. Washington now plans to apply 10 percent tariffs on another U.S. \$200 billion of Chinese goods, and Trump has said he is ready to put duties on every import from China.

“They [the Chinese leadership and researchers] didn't realise how bad the sentiment here is getting. They thought Trump was just bluffing and they still think like that,” according to a former U.S. policy adviser, speaking on condition of anonymity.

“They say this is about the midterm elections and things will change after that. They are totally wrong and they totally misread the situation. I feel partly this is because they have become more insulated, and partly because nobody dares to tell Beijing that they are wrong.”

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## VICTIM OF ITS OWN POLICY?

Sources and observers told the *South China Morning Post* that the problem is policies introduced by Beijing — driven by a need to consolidate the party’s power — that have discouraged policy advisers from having in-depth discussions with their U.S. counterparts that would help them to understand the latest thinking in Washington, or from speaking their minds.

That has left Beijing without a comprehensive strategy to deal with the Trump administration, at least on the trade front, at a time of heightened tension and rivalry.

Six years ago, as President Xi Jinping’s massive crackdown on corruption began, Beijing introduced a series of rules to curb overspending, including limits on government officials, academics and policy advisers traveling abroad.

Since then, many officials have had to hand in their personal passports and use special government duty passports when they traveled instead — and in most cases they are barred from staying overseas for more than a week.

The policy has made it harder to get approval for overseas trips, according to a telecoms professor from a university in central China, who did not want to be identified due to the sensitivity of the matter. He said he had to go through an extra checking process — from both the university and government agencies — before he could go to Honolulu for an international conference this year.

“Any teachers with PhD degrees or mid-level school leaders have to hand in their passports and other travel documents like the Exit-Entry Permit for Travelling to and from Hong Kong and Macau,” the professor said, adding that they were expected to use government duty passports.

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The impact of the policy has also been noticed in the United States. A researcher with a U.S. think tank said they welcomed discussions with their Chinese counterparts, but it was difficult because Beijing only allowed them to make brief visits.

“It’s getting difficult to have the Chinese [government advisers] to stay here for long. They are all on very short-term visas,” the researcher said. “They told us it is Beijing’s policy.”

Chinese advisers had been stymied by that policy, he said.

“This is bad. If they can only come and stay here for less than a week, it’s hard for them to really do the fact-finding and understand the changing sentiment in D.C. and New York. I think this is partly why the Chinese are not reading the situation here correctly,” the researcher said.

At the same time, Beijing is tightening ideological control in all aspects of life, including on university campuses, and demanding that the party line be strictly adhered to. Any unauthorized discussion of government policies can result in a reprimand for “improper discussion of a party directive”.

That has left Chinese advisers and Western diplomats worried about whether their suggestions will be filtered before they reach top-level officials, to ensure they are politically correct.

A former U.S. official who frequently travels to China said Chinese advisers and officials who had previously been outspoken had become extremely tight-lipped, even in unofficial and private talks.

“It’s more difficult to know what they are thinking as they are just repeating the government and party rhetoric,” the former official said. “This will lead to a higher risk of wrong decisions, even fatal mistakes.”

An overreliance on traditional back-door channels is compounding the situation. According to the former U.S. policy adviser, Beijing relies too much on the Wall Street and political elite, including Henry Paulson and Henry Kissinger, to understand US politics — people who do not have any influence over Trump.

“Trump doesn’t listen to them or talk to them. I think the Chinese leadership underestimated the situation,” the former adviser said.

Early on, Beijing had looked to Ivanka Trump and Jared Kushner — the U.S. president’s daughter and son-in-law, who are both White House advisers — to build closer ties with

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Washington. But that approach was short-lived amid concern that relying on connections with Trump's family could hurt China's image, and with Kushner facing controversy over Russia's involvement in the 2016 US presidential election.

## LAST-MINUTE PLANS

With a trade war now under way, the finance ministry is stepping up research and policy consultation on U.S. issues. Last week it set up an alliance of 20 think tanks to do just that, with one of its tasks to "conduct fundamental research, policy studies and prospective studies."

Researchers involved in the alliance said China's existing research on U.S. affairs did not go deep enough, and it had left Beijing ill-prepared for the trade tussle.

Trump has said repeatedly, even before he came to power, that he would take a tough line on China — for example, naming Beijing as a currency manipulator.

But in Beijing, plans to handle Trump's threats were often made at the last minute, according to a source in frequent contact with senior Chinese officials.

The source gave the example of China failing to analyze further measures to keep trade relations on track after the two sides agreed to a 100-day plan to improve economic ties in April last year, when Xi met Trump in Mar-a-Lago, Florida.

As trade tensions worsened, Beijing sent Vice-Premier Liu He to Washington in February and again in March, offering to buy more U.S. products. But the list of products was prepared in a very "hasty manner," according to the source.

"This sort of thing should have been done much earlier, as part of a comprehensive strategy, not just something that was drawn up overnight, days ahead of an important visit," the source said.

Added to that, the State Council's Development Research Centre, a liberal government think tank, has been left out of trade policy discussions by the party's inner circle, according to the source.

Policy advice is vetted and submitted to the top leadership by the Central Financial and Economic Affairs Commission but "we have no idea how much of it has been passed to them", the source said.

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In April, a prominent Chinese economist who had been in the U.S. on an academic trip told an audience at Tsinghua University of how differently the spiraling trade conflict was being seen in America compared to China.

At that stage, think tanks and policymaking agencies in Washington had nearly completed plans for trade actions to be taken against Beijing and had reached consensus “not on whether there would be trade friction with China, but on the need to observe how China would respond”, according to a transcript of the economist’s speech.

“But from what was being said in domestic media, and public comments by Chinese officials before we left Beijing [for the U.S. trip], it seemed that China was unprepared for the trade friction to come. The prevailing sentiment was that bilateral ties were manageable and on a normal track,” the economist said.

## **NOT ENOUGH DATA**

A big problem for China in handling the trade dispute with the U.S. is that it lacks data and detailed scenario analyses, observers say.

One example is a study from May looking at the impact of U.S. tariffs on China’s GDP growth. It was carried out by two researchers with the National Development and Reform Commission but based on U.S. statistics. It is unclear whether the data was adjusted to reflect Beijing’s view of bilateral trade, but it concluded that GDP growth would be dragged down by about 0.2 percentage points — the same estimate reached in another government-backed study that looked specifically at the impact of 25 percent tariffs on U.S. \$50 billion of products.

A former Chinese trade official said the estimates lacked detail and failed to take into account structural differences and changes in the supply chain.

That compares to the approach in Washington — its Section 301 investigation into China’s trade practices was accompanied by more than 3,000 footnotes and supported by data analysis and case studies, according to a Beijing think tank researcher.

“Although a lot of U.S.-focused research has been done in China, we don’t have the depth and the detailed analysis. A lot of it is just superficial,” said the researcher, whose think tank is part of the new finance ministry alliance.

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“We’re hoping our research and policy suggestions will reach the key decision makers through this new alliance,” the researcher added.

Wang Huiyao, founder and president of the Centre for China and Globalisation, another alliance member, said Beijing urgently needed research and data to give it a better understanding of the overall picture.

“Other than bilateral diplomatic ties, China must do more research on China-U.S. trade numbers, on U.S. laws and U.S. industries,” Wang said.

Motivation could also be part of the problem, with some Chinese academics still driven by grants and fame, according to a government think tank researcher who focuses on U.S. studies.

“China has sent scholars and researchers to the U.S. for decades, yet they end up chasing personal gain because they are under pressure to publish papers in certain journals as soon as possible — or they’re busy applying for government-funded projects,” said the researcher, from the Chinese Academy of Social Sciences.

“There are really very few Chinese who are out there in the field doing deep research on U.S. culture, society and on politics.”

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