

# After the Phase I Trade Agreement: Decoupling or Development?

by Richard A. Black, Schiller Institute Representative at the United Nations

Feb. 15—With the signing in January of Phase I of the China-U.S. trade agreement, the question is now posed: Are there principles which, if applied by both nations, could successfully resolve major conflicts and guide the two nations towards a successful Phase II agreement? One scenario, which would ensure failure, would be for U.S. negotiators to assert the City of London/Wall Street demand that China de-structure its system of “socialism with Chinese characteristics,” by agreeing to such actions as reducing its state corporations sector, or cutting directed investment and other features of its dirigist economy. Another negative scenario would be if China were to see as its only recourse a “de-coupling” from the U.S. economy.

At the January 15 White House signing of the Phase I agreement, President Trump thanked his “very, very good friend,” President Xi—who was connected by telephone for the ceremony—for the successful result of the “tough, honest, open and respectful” two years of negotiations. President Trump announced that he would soon go to China to reciprocate the current presence of China’s lead negotiator, Vice Premier Liu He. Importantly, President Trump placed the agreement in the largest strategic context:

As we move on to Phase II, I look forward to continuing to forge a future of greater harmony, prosperity, and, really, commerce . . . far beyond commerce, between the United States and China. That is something that—far beyond even this deal—it’s going to lead to an even stronger world peace.

President Xi Jinping, in his statement, extended his warm greetings and support, but cautioned that it is now critical to “enhance mutual trust.” He called for collaboration not only of businesses, but of research institutes, schools and colleges—clearly a reference to widespread current actions by the U.S. Departments of State, Justice, and Defense, and the U.S. Congress, of labeling visiting Chinese students and scholars as spies, of arresting and de-funding Chinese research scientists



White House/ D. Myles Cullen

*President Donald Trump and Chinese Vice Premier Liu He participate in a signing ceremony of Phase I of a trade agreement between the United States and China, at the White House, January 15, 2020.*

and of closing down Confucius Institutes on many college campuses. And China’s Ambassador to the U.S., Cui Tiankai, in his remarks, said that the relationship between the two nations is at a crucial juncture:

We need to strengthen strategic communication and dialogue on various levels to build trust,



UN/J.C. McIlwaine

*Cui Tiankai, Ambassador of China, addressing a UN Security Council Meeting.*

reduce misgivings and misunderstandings and misjudgment, and properly manage differences so as to build a China-U.S. relationship based on coordination, cooperation and stability.

### What Are the Principles of Mutual Prosperity?

In fact, there are principles by which positive economic relations can proceed between the two nations and others. For decades, U.S. statesman and economist Lyndon LaRouche has spelled out new economic metrics for economic progress and collaboration between the major powers. In China, today—where LaRouche’s contributions are well known in many high-level policy-making circles—certain economists connected to the Central Economic Work Conference have presented important innovations coherent with the solutions provided by the American, LaRouche. The Central Economic Work Conference is the yearly event which sets China’s national economic policy for each coming year.

Recently, there have been important discussions in New York and in Shanghai on both the potential and the barriers to a Phase II China-U.S. trade agreement. In this report, I will review some of those discussions, and suggest a way forward.

Despite President Trump’s active dialogue with President Xi, some leading Chinese economists are cautious about the content of a projected Phase II

agreement. Three points are irrefutable: China’s commitment to its own unique political and economic model; President Trump’s personal commitment to a U.S.-China collaboration which he calls “a very beautiful mosaic”; and the importance of a *new* element on the world stage—China’s brilliant success with its game-changing Belt and Road Initiative (BRI).

Moreover, since I first drafted this review of current discussions of views and principles regarding trade relations, the impact of the novel coronavirus (COVID-19) outbreak has intensified, creating a new context for both what will happen under the Phase I accord, as well as setting special conditions for any Phase II negotiations. On February 7, Presidents Xi Jinping and

Donald Trump had a lengthy telephone discussion on fighting the virus, and on staying in close communication over the coming months on how to carry out Phase I trade commitments. This kind of good-will statesmanship is the precondition for any economic arrangements.



White House

*President Donald Trump with President Xi Jinping at the APEC Leaders Summit in Danang, Vietnam, on November 11, 2017.*

### Prospects for Phase II

The topic of what happens next in U.S.-China trade relations, after the signing of the Phase I agreement, was taken up January 9 at a high-level yearly forum of Chinese and American economists held in New York City. Keynote speaker Dr. Qin Xiao warned that after the signing of the Phase I Trade Agreement, relations

between the two countries would likely go into “a semi-decoupled structure,” while avoiding a full decoupling and a cold war. Dr. Qin, former chairman of China Merchants Bank and of the CITIC Industrial Bank, said that the Phase I Agreement “has not changed the stand-off between China and the U.S. It still looks like a semi-decoupling scenario. The U.S. says that Phase II will focus on structural issues, but never defines it clearly. . . . We should never underestimate the difficulties ahead.”

The forum, jointly sponsored by the Eastern Establishment’s National Committee on U.S.-China Relations (NCUSCR) and the prestigious China Center for Economic Research (CCER) in Beijing, heard presentations from eight economists from China who essentially painted a picture of a China that will continue to open up to the “free market” economy of the U.S. and Europe; but the Chinese economists quietly made clear that Wall Street’s influence in trade negotiations will hit a brick wall if it attempts to force China to lessen the government role of directing industrial development, of channeling finance into industry, and of supporting a growing R&D sector.

Dr. Qin made it clear that his group of economists views the big issue of projected Phase II negotiations to likely be U.S. demands for China to “re-structure” both its economy and its political system. If this estimate turns out to be true, the question then becomes, what is the pathway towards an international solution?

### **At Least, ‘Competitive Coexistence’**

Many of the Chinese economists who spoke at the New York City forum had been involved in releasing an extensive Joint Statement in October 2019, at the Shanghai Campus of New York University (NYU). Signed by 37 leading Chinese and American economists, the statement, entitled “U.S.-China Trade Relations—A Way Forward,” seeks to define a way to avoid trade war by providing an alternative to the deadly choices of either (a) decoupling of the two economies or (b) attempts to force China to abandon its central government’s role in directing the economy.

In fact, more revealing than the Joint Statement itself are several of the Concurring Statements ap-

pendent to the document by some of the signators. What we find is that—for international consumption—the Chinese representatives do *not* speak about the breathtaking achievements of the Chinese economy in the last 40 years and their partnerships today with 157 countries around the world in the BRI. Rather than speaking about the potential for joint U.S.-China great projects in both the developing sector and in the rebuilding of U.S. infrastructure, they define a future economic relationship with the U.S. that will be merely, at best, a “competitive coexistence.”

Why is this? In short, the regime-change tactics of U.S. and British intelligence agencies’ interference against China’s sovereignty, through attacks on Hong



*The Three Gorges Hydroelectric Dam on the Yangtze River, Hubei province, China.*

Kong, Tibet, Taiwan and Xinjiang, and their defining of China as a malignant adversary by many sections of the U.S. federal government—especially the FBI—have, so far, reduced these economists’ best hope to nothing more than what they have named “peaceful economic co-existence.” While President Trump’s policy is one of definite non-interference in Chinese internal affairs, Chinese leaders are, however, watching senior members of his cabinet and federal agencies trumpet a full offensive against China as a primary economic and military threat.

### **Permit the People ‘To Light Lamps’**

The most forthright statement of the Chinese passion for economic development coupled with national sovereignty comes from a Co-Convenor of the October

2019 Joint Statement, Dr. Justin Yifu Lin, Dean of the Institute of New Structural Economics at Peking University. Dr. Lin is a Councilor of the State Council and a member of the Standing Committee of the Chinese People’s Political Consultative Conference (CPPCC). Dr. Lin makes it clear that advanced countries like the U.S. have long developed both their industries and their R&D sector by continuous government economic support. Therefore, to try to now deny such central support to developing countries such as China is hypocrisy and bad policy.



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*Dr. Justin Yifu Lin*

Dr. Lin uses a Chinese proverb from the famous poet, Lu You, from the Song Dynasty to make the point: “Only state officials are allowed to set fire, and the ordinary people are not allowed to light lamps.” (See box, p. 66) By this, Dr. Lin is indicating that the current hypocritical Wall Street policy is in effect saying: “We advanced countries gave government support in the long build-up phase of our industries, and now we subsidize basic science research, but . . . you developing nations are not allowed, today, to employ government support in developing your industrial base, according to today’s dogma of free trade.”

Further, Dr. Lin is explicit, that any attempt to suppress the rapid development of advanced industries in China—such as Huawei’s 5G—“is essentially a bullying behavior and should be condemned and prohibited.”

In similar fashion, Dr. Feng Lu, professor of economics at the National School of Development (NSD) at Peking University and formerly with the G20 Research Group of the Ministry of Finance, explains in the Joint Statement that from the time that China joined the World Trade Organization (WTO) in 2001, she has never intended to either copy or resemble any Western nation’s system or model. He points out that China’s national policy, “socialism with Chinese characteristics,” was adopted in 1987, and has appeared in the title



*Vladimir Vernadsky*

primary with respect to the secondary features of the differing political institutions of different government systems?

The American scientist and economist Lyndon LaRouche (1922-2019) analyzes this question and provides a solution in a 2008 [paper](#), “Why the Economists Failed—Economy and Creativity.” In that paper, LaRouche points to the central and irreplaceable role of the building of the most advanced infrastructure for ensuring limitless growth in both (a) the cognitive levels and the living standards of the general population, and (b) the rate of progress of the basic science research itself, which, in turn, is the prerequisite for further revolutionary advance. LaRouche writes that advanced infrastructure “amplifies the productive powers of labor at the point of both production of physical goods, and of the effect of essential services on increases of the physical-productive powers of labor. . . .”

LaRouche uses the examples from history of both the role of the Great Projects of Charlemagne in Europe and the nation-building approach of the Twentieth-Century Russian scientist, Academician V.I. Vernadsky. LaRouche writes:

Under Charlemagne and his influence, for example, the greatest increase of the productive powers of labor, per capita and per square kilo-

of the political reports in each and every subsequent CPC congress. In short, China is defining its own development model. It will neither copy an economic model, nor use its choice of model as a bargaining chip in any negotiations.

### **A Contribution from American Scientist Lyndon LaRouche**

Is there a key to durable economic progress, which if used, could unlock continuing future prosperity for both the U.S. and for China? Are there definable principles of the development of peoples which are primary—pri-

meter, was achieved through such prominently featured means as the launching of a system of rivers and canals which became the principal means of Europe's inland waterborne transport. The role of such systems of rivers and canals was, later, both superseded and assimilated by the development of transcontinental railway systems during the late Nineteenth Century, beginning with that legacy of the Presidency of Abraham Lincoln. Similarly, later, during the period preceding so-called "World War I," Thomas Edison's development of the electrical motor, in lovely defiance of the *New York Times* at that moment, resulted in a general increase in productivity in manufacturing, even without comparably significant improvements in the methods of production otherwise.

*In the language of the great Twentieth-Century Russian scientist Academician V.I. Vernadsky, the principal cause of the increase of the productive powers of labor, occurs through situating production and transport of goods and services within that essentially supporting framework of mankind's qualitative improvement of the Biosphere, an improvement which is effected through the qualitative improvement of the Noösphere as such. [Italics in original.]*

Thus, LaRouche defined the advancing of great trans-national infrastructure building as the key to both (a) the lifting up of the cognitive power of populations to the new level required to maintain and innovate upon new, revolutionary infrastructure, and (b) the upshifting of the productivity of labor for the economy as a whole. In LaRouche's science of physical economy, "It is only the mind, whose approach to economy is physical, rather than financial accounting practices, which is capable of understanding, and accounting for the relative values generated by economic processes." LaRouche's conception of the economic power of infrastructure provides one key to understanding the immense effect of China having built 35,000 kilometers of high-speed railroads, domestically, over the last twenty years, and the rapid impact in Africa of its railroad building and industrialization projects on the continent, through the BRI.

## A Russian Scientist Embraces an American's Discovery

In the 1980s, American scientist Lyndon LaRouche introduced a new economic measure, "potential relative population-density." In opposition to the money-counting tricks of the City of London and Wall Street—which make no distinction between speculative, non-productive money profit, on the one hand, and advances in the real, productive economy, on the other—LaRouche's metric measured real human progress. In other words, we have the following progression of determinations: First, "how many people can be potentially sustained per square kilometer—solely by means of labor at current technological levels—of that soci-



EIRNS/Rachel Douglas

Academician Pobisk G. Kuznetsov (c.) organized a presentation for Lyndon LaRouche (r.) at the Russian Academy of Sciences, during LaRouche's first visit to Moscow, in April 1994.

ety's population?" and second, "what is the rate of increase of that society's potential relative population-density?" This new metric could allow nations to measure actual human progress, or decline.

The late, renowned Russian chemist, philosopher and engineer, Pobisk G. Kuznetsov [proposed](#) that LaRouche's measure, in the science of physical economy, be designated in the future by the use of the term, *La*—short for *larouche*—as the name of the unit of measure of potential relative population-density. In the December 1994 issue of the Moscow journal *Rossiia 2020*, he wrote:

Let us introduce the physical magnitude of a *larouche*, designated by *La*, to denote the number of persons who can be fed from one square kilometer, or 100 hectares, of land, during one year.

In this way, LaRouche had introduced a measure of the advance of physical economy, building on the work of American geniuses Alexander Hamilton and Henry C. Carey. The measure would incorporate technological progress, expanding infrastructure, and a rising energy flux-density in the production process. [LaRouche esteemed Kuznetsov highly, but pointed out to his associates that ultimately, potential relative population-density, as a self-reflexive process, could not be assigned a number.—ed.]

### Is China Developing a ‘New Set’ of Physical Economic Indicators?

An article first published in the English language edition of *People’s Daily*, in December 2017, carried the headline, “China Eyes Shift in Economic Policy for 2018—New Indicators Expected to Evaluate Development Quality.” Quoting interviews from the semi-official *Global Times*, the article discusses the coming week’s session of the Central Economic Work Conference, the yearly event which sets the direction for the central government’s coming economic policy. In discussing an expected de-emphasis on the setting of GDP targets for the nation as a whole and for the various regions, and their replacement by a set of new *physical economic* parameters, the article brings to mind the economic approaches of Premier Li Keqiang, as they were first debated internationally in 2010.

Auspiciously, the question arises: Has there been a serious behind-the-scenes discussion at the highest levels in China, of eventually replacing the highly worshipped money indices of the IMF, the WTO and *The Economist*, with something of a different quality—something of the physical economic approach of LaRouche, of Kuznetsov and of Li Keqiang?

*People’s Daily* quotes economist Tian Yun, director of the Macroeconomics Research Center’s China Society, an affiliate of the National Development and Reform Commission, China’s top economic planning agency. Tian remarked,

There could be some major, systemic changes in how the government prioritizes economic poli-

cies. . . . China has long been talking about pursuing high-quality, sustainable economic growth, but has made little progress because local governments continue to focus primarily on GDP. I think we could see some real policy shifts in 2018 to change that. For example, the central government might come up with new economic indicators to gauge economic development.

Speaking of such a “new set,” Liu Xuezhong, a senior macroeconomic analyst at the Bank of Communications, said that such new indicators could put more focus on three areas: (1) the environment, (2) people’s



Premiere, Li Keqiang visiting a Samsung semi-conductor plant in Shaanxi province, China on October 14, 2019.

livelihood, and (3) technological innovation: “If they release one, I suspect that it will be a comprehensive and clear set of indicators that truly reflects the government’s long-pursued goals of making the country’s economic development more efficient and green.”

The West’s financial media have long reported the story—based upon a leaked cable from Wikileaks—that Premier Li Keqiang had informed an American diplomat in 2007, that he, Li himself, did not trust China’s official GDP figures, that they were largely “man-made.” Later, when Li became China’s Vice Premier, he headed commissions overseeing the construction of the immense Three Gorges Dam and the Move South Waters North project.

According to the leaked cable, Li informed the U.S.

ambassador that when he had been Communist Party Secretary in Liaoning Province, rather than using GDP figures for planning, he devised a set of economic indicators which included (1) electricity consumption, (2) rail cargo volume, and (3) new bank loans provided. So rattled were the monetarist bastions by this revelation, that *The Economist*, *Bloomberg News* and others in the West quickly devised their own version of Premier Li's new method for tracking China's economy. They called this "the Li Keqiang Index"!

More recently, in June 2018, Premier Li toured Sany Heavy Industry, located in Changsha, in central China's Hunan province. The *South China Morning Post* reported that Li came away from that tour commenting that Sany's "excavator index . . . provided important support for macroeconomic analysis." The *Post* explained:

The [excavator index] gauge, which tracks 380,000 of the company's concrete mixers, excavators, and cranes, is a valuable indicator in gauging the health of the Chinese economy, according to a statement published on the government website, [www.gov.cn](http://www.gov.cn) [in English, [english. www.gov.cn](http://www.gov.cn)]. Sany, which has manufacturing facilities around the world and competes on the global stage with Caterpillar of the U.S. and Komatsu of Japan, has been providing Beijing with information captured by the index on a monthly basis since 2014.

Aspects of China-U.S. trade can be looked at in implied terms of physical measurement like this, to judge to what degree the "coupling" of supply chains across their economies can be mutually beneficial, or whether selective "decoupling" would be better.

Food commodity trade is an especially good case in point. For example, right now there is a very important complementarity between China's need for pork, and the U.S. capacity to supply it. With the Chinese swine-herd cut in half over the last 18 months from the scourge of African Swine Fever, and now the disruptions from COVID-19, China has need of meat imports, which have been coming from Europe, Australia, and South America. U.S. producers can add to that—directly with meat shipments, and indirectly with soybeans. This meets the terms of Phase I.

Then, as stability and growth resume in China's animal protein sector, new trade patterns can be planned in collaboration. For example, China and the U.S. can

cooperate on food and agriculture projects to increase nutrition and agricultural productivity in Africa and in Central and South America. The U.S. can benefit by reducing its current export-oriented monoculture in soy, hogs, and corn, and restoring the domestic rural sector to diversified, high-tech family-scale farms. In the course of this upgrade, the trans-national cartel corporations, which came to dominate international food flows during the "free" trade era, could be phased out. These large goals are entirely compatible with the respective political-economic systems of China—"socialism with Chinese characteristics," and of the United States—a revived "American System."

## **Phase II Trade Talks and the Common Aims of Mankind**

Can China and the U.S. approach the projected Phase II trade negotiations with a new set of principles based upon mutual economic development? Can the current prevailing antagonistic geopolitics and geo-economics be replaced—as if "from above"—by each country lawfully using a new set of economic measures, reflective of the principles of development outlined variously by LaRouche, by Kuznetsov, and by Li? Can the old and tired British Empire Malthusian policy of "beggar-thy-neighbor" be replaced by "win-win" projects of infrastructure building and in joint Space missions?

If the major powers are to avoid "decoupling" and war, then the answer to these questions must be a determined, "Yes!" Helga Zepp-LaRouche, founder and president of the Schiller Institute commented recently on President Putin's own call "for a serious discussion about the basic principles of a stable world order and the most acute problems that humanity is facing. . . ." Addressing her fellow Europeans, in a [statement](#), "The World Order Urgently Needs New Principles to Ensure World Peace," Mrs. LaRouche wrote:

This serious discussion of the principles on which a sustainable order for all of humanity must be based is urgently needed. Instead of sticking to the backward-looking and dangerous concepts of geopolitics and "geo-economics," the European states should participate in the potential of the New Silk Road.

It is therefore imperative that all forces in Europe that are interested in ensuring world peace support the summit between Putin, Xi Jinping and Trump. . . .

The principles on which the world order urgently needs to be built are the common aims of mankind. The liberal establishment of Europe and the USA would do well to rethink the premises of its own profit-oriented system and to cooperate with the New Silk Road program in the economic development of Southwest Asia and Africa. . . .

Let the successful signing of the Phase I trade agreement, and President Putin's call for an urgent summit of the five Permanent Members of the UN Security Council, be the launch points for serious discussions of new approaches both in economics and in relations among sovereign states.

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## The Necessary Government Role in R&D and Economic Advance

*Dr. Justin Yifu Lin is the Dean of the Institute of New Structural Economics at Peking University and the former Chief Economist at the World Bank. He is renowned as the father of China's sweeping agricultural reform, an expert in both Chinese and Western economic theory, and a leading scholar of the view that China must develop its own economic and political system, based on the classical Chinese texts and values. We quote here from his Concurring Statement, appended to the October 2019 paper, "U.S.-China Trade Relations—A Way Forward," released at the Shanghai Campus of New York University (NYU).*

Due to the different stages of economic development in developing and developed countries, market failures of their industrial upgrading occur in different places. If a developed country is allowed to take measures to overcome market failures for its industrial upgrading and a developing country is not allowed to take corresponding measures, it is like what the Chinese proverb describes: "Only the state officials are allowed to set fire, and the ordinary people are not permitted to light lamps."

For example, the technologies of most industries in a developed country are at the forefront of the world. The country needs to invent new technologies by itself for its industrial upgrading. The invention relies on breakthroughs in basic research (R) and the development of new technologies after breakthroughs in basic research (D). Enterprises are enthusiastic for D, but they are not willing to do R. However, without the breakthrough of R, the potential for D is limited. Therefore, the government in a devel-

oped country needs to support R for the country's economic development.

The fields that R can do are infinite. The budgets that the government can use to support R are limited. As such, the government needs to allocate budget to Rs for industries that are most important for national defense and/or economic development. According to Mazzucato (2011) and Gruber and Johnson (2019), the United States' current global leading industries are the results of the Rs supported by the government in the past decades. In essence, a developed country's support for R is an industrial policy. In addition, the patent system in a developed country compensates for the externalities generated by innovators.

A developing country will also have market failures in its industrial upgrading, for example, inadequate hard and soft infrastructure, but the government's budgets and implementation capabilities will not be sufficient to provide adequate hard and soft infrastructure for all potential industries and for the whole nation. The government can only provide the necessary improvements to the industries and places that have the greatest contribution to its economic development, that is, the government needs to have industry-specific and location-specific policies (Lin 2017).

This is essentially the same as the support of R in developed countries. The innovator in developing countries will also generate the externalities that should be compensated. The innovation in developing countries is not patentable, as it occurs within the global technological frontier. Therefore, the compensation for externalities in a developing country will be different from the patent in a developed country. If a developing country is not allowed to adopt industry-specific measures to overcome market failures in its industrial upgrading because its measures are not subsidies for basic research or patents for new technology as in a developed country, [then] this is like "only the state officials are allowed to set fire, and the ordinary people are not permitted to light lamps."