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Dear Policy+ Subscribers,

This morning, we had an insightful P+ exclusive session with **Dr. Minxin Pei**, Professor of Government and Director of the Keck Center for International and Strategic Studies at Claremont McKenna College. As part of our video conference series, the briefing with Dr. Minxin was our third endeavor (Samm Sacks of New America and Meredith Sumpter of Eurasia Group were our first two video conference guest speakers) to bring the best knowledge and thought-leadership from around the world to your doorstep.

For those of you who could not make it to the event in-person or dial-in, please see some of the highlights below:

Burning issues at home

- **No good stories to tell:** Xi is under pressure to form party unity but the ongoing trade conflicts and social unrest in Hong Kong are not helping.
- **Hong Kong:** from an operational perspective, military intervention by Beijing is not difficult. However, China is no longer the same country thirty years ago. Hong Kong as whole has also **changed** since then. The speaker thought Beijing must watch out for optics as occupation by force would be a PR and political nightmare; additionally, the US hardliners would be able to use it as an excuse to justify the cause for **suspending** the Hong Kong Policy Act.
- **Beijing's attitude towards Hong Kong:** The speaker believed Beijing would make zero concession to the Hong Kong protesters, despite the upcoming festive national celebration. He



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cited both the **use** of language (e.g., “terrorism”) by Chinese officials and escalated rhetoric in state media as evidence that Beijing has not ruled out the possibility of a crackdown. That said, Beijing might give Hong Kong government another six weeks to restore order. After that, a military suppression would be very likely.

- **Fourth Plenary Session:** Beijing is counting on two burning issues (e.g., Hong Kong and trade conflicts) getting out of the way. The 4th Plenary Session should be held around either late October after the 70th Anniversary of the founding of PRC or early November. If not, something seriously wrong may be happening within the Party.

Unlikely Trade Deal

- **Why:** one, current tensions between the US and China are mainly driven by geopolitics, instead of trade; second, both the US and Chinese leaders seem to have made policy decisions at conjecture; third, political elites in the US think Chinese power is an undesirable factor and an overwhelming portion of American population believe China is a threat; fourth, Beijing is ready for a lasting battle with the US, coming out of the CPP leading small group on unemployment **led** by Vice Premier Hu Chunhua newly established in April.
- **A deal would be temporary:** the open-ended strategic conflict between Beijing and DC may well last beyond year of 2020. Trump's **re-election** would make the bilateral relationship **deteriorate** faster, yet, a democrat president would not necessarily have a dramatic change, either. The speaker suggested that there could be a 20-25% chance of cooperation (e.g., climate change) between Beijing and a Democrat US President, as Democrats will be tough in a difference (e.g., human rights). The speaker did not believe in any opportunity of amelioration if a Republican made to the White House.
- **Agriculture vs. energy:** Trump is more likely to use agricultural products as a leverage than energy exports in the trade negotiations. Energy exports to China would require a lot of investment in infrastructure and pleasing farm states is Trump's top priority to secure votes.



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Look for cues

- **Good will and caution:** so far, the Chinese government has demonstrated a lot of restraint in response to Trump's tariff tactics. The speaker pointed to the **adjustment** of currency exchange rate as an example for how Beijing refrains from making irreversible steps (whereas DC makes irreversible steps and then tries to send signals).
- **Political signposts:** for MNCs operating in China, the Chinese government's attitude towards them may matter more than its US counterpart. Signpost #1 whether it is becoming easier or more difficult to **get meetings** with key Chinese senior leaders in charge of foreign trade relations; signpost #2 whether Chinese senior officials start to make anti-American rhetoric publicly, coupled with unprecedented levels of anti-Americanism in media.
- **Untouched toolkit:** the speaker believed that China has limited resources of engaging in tit-for-tat with the US. Nevertheless, there is one tool left untouched—Chinese outbound tourism (see the **travel ban** on Taiwan as an example).
- **Spring 2022:** the Party will be facing a difficult choice of whether Xi should get a third term. There will be a lot of back-and-forth inside Zhongnanhai. A successor might be someone we never heard of, someone young who is possibly a proxy.

That's all for today. We understand that the content from Policy+ emails is getting more pessimistic but we also think the MNCs have full agency to manage political risks effectively. This is why Policy+ is here for. Please feel free to write back if you have any comments or questions. We have two upcoming Policy+ events, one on social credit score, and the other one on "consumer nationalism." See you soon!

Best,

AmCham China Government Affairs and Policy team



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