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Trade war: China 'risks disengagement with US unless it changes'

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China must make substantial changes to its economic policies or it will face disengagement with its largest trading partners, American former officials and economists have warned in Beijing.

The suggestion that China could be left isolated in global trade came days after US vice-president Mike Pence made a speech adding to concerns that an economic cold war was looming between the world's two largest economies.

Monday's visit of American scholars to Beijing – at a time of shrinking direct dialogue between academics of the two countries – came on the same day that US Secretary of State Mike Pompeo paid a brief visit to Beijing that was marked by frosty talks, after which Pompeo said the two sides were stuck in "fundamental disagreement" over a range of issues from trade to China's domestic and foreign policies.

The US scholars, visiting for a seminar hosted by Peking University's national school of development and the Heritage Foundation, a conservative public policy think tank in Washington, offered a stark assessment at the forum with Chinese academic counterparts including Justin Lin Yifu, the former chief economist of the World Bank who advises China's top leadership, and Huang Yiping, an adviser to China's central bank.

Derek Scissors, a resident scholar of the American Enterprise Institute, also a Washington-based conservative think tank, said that confrontations over alleged theft of American firms' intellectual property and state protection of state-owned enterprises (SOEs) would probably worsen if China sticks to its existing industrial policies.

"We have seen no movement from the Chinese side to allow greater foreign competition with central SOEs," he said. "In fact, we see consolidation of central SOEs to make them less vulnerable to competition."

Scissors warned that trade disengagement from the US and other partners could result, and may hurt China's trade's sectors.

"We are moving towards a relationship where China and the United States will both block investment in certain sectors," he said.

"In two weeks, the US Treasury is likely to call China a currency manipulator." Scissors did not explain why he was making such a forecast.

He added that US President Donald Trump did not have a long-term approach to contain China and was "impatient". "A deal could occur, but will not persist," Scissors said.

China's model of state-sponsored "innovation" was fundamentally different from that of the US, he added.

"The US government did not have tech policy targets, industrial funds and enterprises which cannot fail," he said. Instead, "the most competitive, innovative and productive firms should win, not those backed by government".

Edwin Feulner, founder of the Heritage Foundation, said many Americans were blaming China for empty factories, lost jobs and ghost towns in the US, and often linked China's growth to stolen technologies, cyberattacks and other negative factors.

"It's no longer possible to do business as usual with Washington," he said. "I know Trump doesn't like failure. [He] is a tough negotiator."

There will be a long list of economic issues that must be addressed for both countries, including intellectual property rights, and Communist Party cells in joint ventures, subsidies of SOEs and state-invested businesses, Feulner said.

Phillip Swagel, a professor of the University of Maryland, who assisted Henry Paulson when the latter was US Secretary of the Treasury during the 2008 global financial crisis, said American businesses negatively affected by China's trade practices were often the least flexible part of the US economy, and US policymakers had to find ways to address their woes.

"Even after so many political battles in our country, both Democrats and Republicans share the view that things must change in the China-US relationship and an important aspect of the change must come from China," said Swagel.

Such a view is growing among the US' previously China-friendly business community.

"Over the last several years, those natural friends of China were frustrated by Chinese actions," Swagel said, referring to forced technology transfer for businesses operating in China, the country's business licence requirement, biased enforcement of antitrust rules, the US accusing China of cyberattacks, and China's data protection practices such as information collection and a crackdown on domestic use of virtual private networks.

James Dorn, vice-president of Washington think tank Cato Institute, said at the same forum that China should keep its promises and allow a free flow of information and ideas to win back trust.

"If the [Chinese] leadership actually stick to what they are saying, like on free trade, and make concrete steps in that direction, the American public would see that, and if they actually did something it would be positive," he said.