

FT Collections **China's global ambitions**Opinion **US-China trade dispute****A US trade war could propel China to hasten reforms at home**

Even with steeper tariffs, Beijing may still gain the upper hand

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The Chinese port of Qingdao in Qingdao. Opening up to top overseas competitors would have a positive impact on China's broader economy © EPA Keyu Jin APRIL 30, 2018

Paradoxically, in some cases it may be better to lose a [trade conflict](#) than to win it. Donald Trump's efforts to force China to open up to [global trading](#) are seeking a good deal for the US in the short run. But China would be the winner in the long run.

Although the common view is that a [trade war](#) would be a disaster for both countries, reformers within China are likely to seize on it as an opportunity to hasten domestic reforms. The stakes are high enough that, even if higher tariffs and other measures initially hit Chinese exports, the country may still be strengthened by the process.

China has been grappling for years with a vicious cycle of over-production, low consumption and export dependence. Its oft-declared plan to shift to consumption and services has been more aspiration than reality. The hold-up has much to do with interest groups and local governments trying to protect [heavy industries](#) that generate revenue and jobs. Because the state has such a hold on power and the domestic market is large, there is little internal pressure to change. Government institutions wrangle over power, resulting in vital reforms being blocked.

Some frustrated central government reformers, weary of local resistance to reducing capacity and shutting down zombie companies, have privately suggested bombing a few steel factories.

The idea draws on Sun Tzu's ancient war tactic of burning transport boats behind troops as they land to remove the possibility of flight.

Now President Trump of the US may provide the missing catalyst for China's next round of reforms, by challenging the nation with an external threat. Remember that Premier Zhu Rongji used China's 2001 entrance into the World Trade Organization to justify modernising state-owned enterprises at that time. The efficiency gains achieved with freer trade arguably spurred years of fast growth in China.

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Ultimately, it is in China's interest to respond to US pressure. Its consumers will benefit twice. First lower tariffs on cars, wine and cheese will increase their purchasing options. Second, Chinese consumers also bear the cost of subsidising local steel production, while the benefits go to carmakers and solar panel producers.

More broadly, the current rules requiring overseas companies to set up joint ventures with Chinese firms and transfer technology does nothing good for China in the long run but they invite bad press. Only second- and third-tier companies, with inferior technologies, are happy to trade their expertise for access to China's market.

China is long past the stage where it needs to protect its industries. Its companies innovate on their own and are resilient to competition. Opening up to top overseas competitors would have a positive impact on the broader economy: foreign investment in high-skill industries would flow in. Liberalising financial markets is already on the agenda. But China still must reform its financial sector, which serves as a bottleneck for efficient resource-allocation, and a playground for irresponsible actors.

The Trump administration should be careful what it wishes for. Ironically, if it manages to negotiate improved US trade access to China, the results could be more beneficial for China's economy than for its own. The Chinese telecommunications company ZTE is a case in point. China was once excessively dependent on advanced US technology, putting itself at the mercy of others. Now its companies are motivated to advance their own research and development, and are on track to become formidable rivals to their American competitors in the foreseeable future.

The philosopher Mencius once said: "People stay alive in adversity, but hasten their demise in a carefree life." China may suffer some losses in a trade war but it could be a blessing in disguise.

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