https://www.wsj.com/articles/china-is-preparing-to-increase-access-for-foreign-companies-11544622331

ASIA

China Prepares Policy to Increase Access for Foreign Companies

Some U.S. officials are likely to see Beijing's move away from its controversial Made in China 2025 policy as more cosmetic than real

President Xi Jinping and President Trump in Beijing in November 2017 **PHOTO:** ANDREW HARNIK/ASSOCIATED PRESS

By Lingling Wei in Beijing and Bob Davis in Washington

Updated Dec. 12, 2018 7:21 p.m. ET

China is preparing to replace an industrial policy savaged by the Trump administration as protectionist with a new program promising greater access for foreign companies, people briefed on the matter said.

China's top planning agency and senior policy advisers are drafting the replacement for Made in China 2025, President Xi Jinping's blueprint to make the country a leader in high-tech industries including robotics, information and clean-energy cars. The revised plan—Beijing's latest effort to resolve trade tensions with the U.S.—would play down China's bid to dominate manufacturing and be more open to participation by foreign companies, these people said.

Current plans, they said, call for rolling out the new policy early next year, when the U.S. and China are expected to be accelerating negotiations for a deal to end their bruising trade battle. China has signaled other measures as well, including lowering tariffs on auto imports and increasing purchases of U.S. agricultural products.

as signs of easing trade tensions boosted the global economic-growth outlook. The Dow Jones industrials climbed 157.03 points, to 24527.27, after earlier rising as much as 458 points. The S&P 500 added 14.29 points, to 2651.07. Positive trade signals have tended to boost stocks in recent weeks, while setbacks in negotiations have sent major indexes tumbling.

Signs of continued tensions surfaced elsewhere in Washington, as top U.S. national security officials told lawmakers in Senate hearings that Beijing continues to exploit U.S. technology in a bid to develop its own economy, further describing Chinese hacking and cyber-espionage as a severe threat to U.S. security.

Odds are long that Beijing's new industrial policy will go far enough in addressing U.S. complaints. Mr. Xi and others in the Chinese leadership are used to exercising a strong hand in the economy. Many bureaucracies and state-owned enterprises benefit from the unfettered access to resources that come with big government initiatives and so don't want to be hampered by the greater competition of a level playing field.

The revision is also likely to be treated with skepticism in the U.S. Officials in the Trump administration have called Made in China 2025 a threat to fair competition, saying it encourages state subsidies for domestic companies and forces technology transfer from foreign partners. Some U.S. officials are likely to see the changes as more cosmetic than real.

"While our industry would welcome less discriminatory policy out of Beijing, more needs to be done beyond simply changing the name of this industrial policy," said John Neuffer, president of the Semiconductor Industry Association. "That would involve meaningful protection of our intellectual property and cessation of forced technology transfer." The original Made In China 2025 plan named the semiconductor industry as a strategic priority, and Beijing has poured billions of dollars of financing into state-owned chip firms.

If approved by Mr. Xi, the plan could nonetheless win over some foreign businesses and persuade some in the Trump administration that Beijing is making meaningful changes to retool the economy to be more market-driven.

"It would be a positive shift from the government focusing primarily on which tech sectors to foster to it emphasizing making the production process more efficient," said Scott Kennedy, an expert on China's industrial policies at the Center for Strategic and International Studies, a Washington think tank.

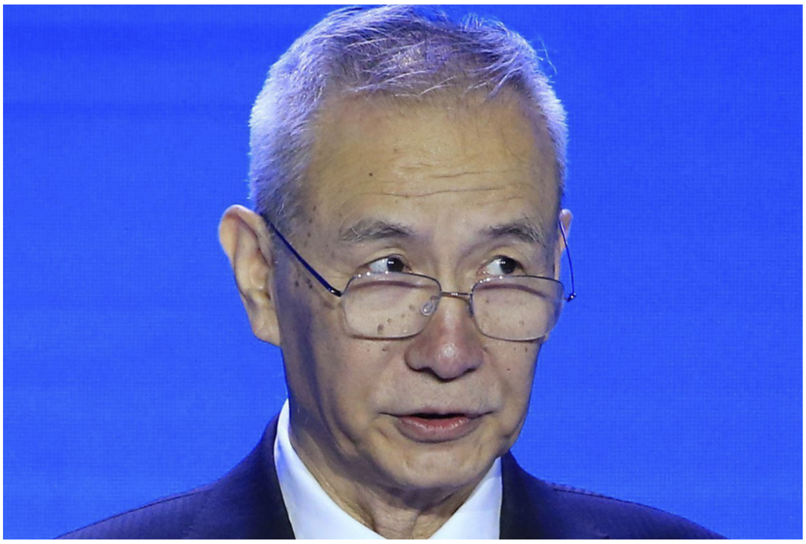
Chinese leaders in recent months have stopped mentioning the Made in China plan in public remarks. At a press conference in November, Mr. Trump took credit for China shelving the plan, saying, "China got rid of their China '25 because I found it very insulting."

A key concession under consideration would be dropping the numerical targets for market share by Chinese companies, these people said. Made in China 2025 sets defined goals of raising domestic content of core components and materials to 40% by 2020 and 70% by 2025, an foreign competitors.

- China Moves to Address U.S. Economic Concerns (Dec. 11)
- Trade Deals With China—Done the Chinese Way (Dec. 12)
- China Detains Michael Kovrig, a Former Canadian Diplomat (Dec. 11)
- U.S. Maintains Hard Line as Details Emerge in Trade Truce With China
- Trump’s Tough China Tack Wins Over Skeptical CEOs (Dec. 8)
- U.S. Readies Charges Against Chinese Hackers (Dec. 7)
- As Trade Battle Unfolds, Trump Keeps Close Focus on Markets (Dec. 7)

Chinese officials backing the proposed changes emphasize that China needs to move away from Made in China 2025 and state-led development for its own reasons. Mr. Xi’s economic adviser, Vice Premier Liu He, and other senior officials have criticized Made in China 2025 for creating waste. Cheap loans made available by various levels of government, for example, have led to extreme overcapacity among electric-vehicle battery makers in the past couple of years, making the sector less viable.

A more market-driven approach to upgrading the manufacturing sector would produce better economic returns and help rekindle the Chinese leadership’s commitment to overhauls, the people briefed on the matter said. Mr. Xi has stressed a shift to higher-quality growth, and China this month marks the 40th anniversary of the market-oriented changes that transformed the country from one of the world’s poorest.



Vice Premier Liu He has criticized Made in China 2025 as creating waste. PHOTO: ALY SONG/REUTERS

Beijing is also planning to announce policies aimed at introducing fairer competition among state-owned, private and foreign firms based on the concept of “competitive neutrality,” the people said. In the past few years, China has significantly increased the government’s role in the economy, pumping up the state sector and crowding out private and foreign businesses.

The Trump administration has pushed the “competitive neutrality” principle, making sure it was part of the renegotiated North American Free Trade Agreement, known as the U.S.-Mexicocompanies over privately owned ones.

Newsletter Sign-up

The idea was a favorite of prior U.S. administrations as well and became part of the Trans-Pacific Partnership, a trade pact of Pacific-rim nations, including the U.S. and Japan, that was negotiated by the Obama administration and rejected by Mr. Trump on his first workday in the Oval Office. That pact, now relabeled the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, includes 11 countries, among them Japan, Australia, Canada and Vietnam.

Trade negotiators in Washington and Beijing have started a new round of talks since Messrs. Trump and Xi reached a 90-day trade truce on Dec. 1. The U.S. agreed to put off its plan to raise tariffs on $200 billion of Chinese goods to 25% from 10% on Jan. 1.But the U.S. wants structural issues like Made in China 2025 and other policies addressed in any full trade deal.

Beijing's top trade negotiator, Mr. Liu, has told his U.S. counterparts, Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer, that China is planning to reduce auto tariffs and boost purchases of soybeans and other crops.

U.S. business groups have been staunch critics of China's industrial policies and the favoritism they say is doled out to domestic companies—from subsidies to standards and protections of their intellectual property.

"Any progress on addressing global concerns regarding the Made in China 2015 plan should be benchmarked not against new slogans and broad formulations," said Jeremie Waterman, president of the China Center at the U.S. Chamber of Commerce. "It should be benchmarked against very detailed concerns regarding subsidies, standard setting, procurement and others."

Write to Lingling Wei at lingling.wei@wsj.com and Bob Davis at bob.davis@wsj.com