

## Decoupling or Convergence?

This article is published in part in China Daily on October 8, 2019

Jan Tinbergen, a Dutch economist who was the First Recipient of Nobel Prize for Economics in 1969, proposed a theory of convergence. According to him, the “socialist economies” and “free economies” were undergoing fundamental institutional changes: the market mechanisms were being introduced increasingly into the former, while the public sectors were playing a bigger role in the latter. Though not necessarily ending up in the same institutional configuration, the converging nature of these changes were unmistakable.

Since President Trump of the United States started the trade dispute with China, the talks of “decoupling” of US and China seems to be the dominant voice in the international public opinion. However, we should not lose sight of the process of “convergence” still in operation. Take the example of debate on “5G nationalization” in the United States. Without the competitive pressure of the Chinese technology giant Huawei, it is difficult to imagine the almost taboo word “nationalization” could have entered into the US public policy debate. Though President Trump does not in the end adopt the proposal of “5G nationalization” of his National Security Council, the tendency of convergence can still be identified. Take another example from the issue of legitimacy of industrial policy. Though the trade negotiation team of the United State is critical of the excessive capacity caused by the Chinese industrial policy, two famed MIT economists Jonathan Gruber and Simon Johnson, in their new book “Jump-Starting America”, are suggesting 102 places in the US to do the jump, an industrial policy not dissimilar to the Chinese policy of “special economic zones”.

On the side of China, the tendency of convergence can also be observed. Since the trade dispute with US started, China has officially committed to the OECD principle of “competitive neutrality” of state-owned enterprises. As a matter of fact, this principle is perfectly consistent with the Chinese Communist Party’s Resolution on Comprehensive Deeping Reform adopted by the Third Plenary Session of the 18th Party Congress. A key word from the Resolution is “mainly focusing on the management of state capital” ( 管资本为主 ). It means that micro-managing a concrete enterprise is no longer the main task. The state will behave more like a portfolio investor, investing public capital in diverse enterprises, not necessarily being the majority shareholder in each of them. Though there is still a long way to go to fully implement the Party Resolution, the direction of the reform is clear.

James Meade, a British economist who was also a Nobel Laureate and a colleague of Jan Tinbergen when they both worked for the League of Nations in late 1930s, proposed a model of “liberal socialism” for every country in the world. In his scheme, there is a so-called “Topsy Turvy Nationalization”. What he meant by “topsy turvy” is to contrast with the UK nationalization after the Second World War. At the time, the UK

government issued huge public debts in order to buy off the private owners of the enterprises. Then, the government had to use the profits from nationalized enterprises to pay the interest on those debts. Therefore, the government did not benefit financially from state ownership while assuming the tedious task of micro-managing enterprises which its bureaucratic nature made it unfit. Meade wanted to reverse this: the state should invest public capital in diverse enterprises and use the profits to pay a “basic income” (or “social dividend”, to use his own word) to every citizen, while unburdening itself with the task of micro-managing concrete enterprises. It is not difficult to find the kindred spirit between Meade’s “liberal socialism” and the Chinese notion of “socialist market economy”, especially if we compare his “topsy turvy nationalization” with the Chinese Party Resolution’s key word “mainly focusing on the management of state capital”.

If Jan Tinbergen could optimistically envision “convergence” in the high tide of the Cold War, we have reasons to hope for a solution to the US-China trade dispute, since we are not yet in a new Cold War. What is required is opening of hearts and minds of each side.