

On Trump's "Misguided Trade War" with China

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Trump started his trade war with China over a year ago. After a year of escalations, two high-profile G20 meetings and months of on-off-on again negotiations, the trade war has the world tittering on the edge of a global recession.

In the run-up to last month's G20 meeting, Trump had boasted that "it's me right now that's holding up" a deal with China. Rejecting Beijing's pleas for a "balanced" deal, Trump's top trade advisor Lighthizer declared that any deal must involve China making up for its' "past transgressions." [1]

The notion that the U.S. has long been the victim of unfair trade practices, especially at the hand of China, thus is no longer just *election rhetoric*, but the *raison d'être* of America's trade war.

In the past, U.S. politicians often accused China of manipulating its currency to steal American jobs. The fact that China never developed a "freely convertible" currency was not a result of *cheating per se*, but of the country focusing on developing its *Main Street* over *Wall Street* economy first.

Historical data shows that China has actually kept rates *stable and steady* over many decades. There is no evidence of China ever *artificially lowering* its currency only to raise it later purely for trade gains.

With an almost 300% increase in wages over the last decade, China is no longer a *low wage* nation in Asia. Yet the average Chinese worker last year – working on average 6-day weeks and 12-hour days – still earns only around 1/10th of his American counter-part, at around \$2.86/hr vs. \$22.04/hr. [2] Is China still "stealing" American jobs? If so, what about nations like Vietnam or India that now command even lower wages?

Americans face the same – albeit reverse – conundrum with its European and Japanese trading partners. Today the U.S. stands almost alone among developed nations without Universal health care. This can be great drag and major source of trade disadvantage for American companies. Trump recently provoked an uproar when he commented that Britain's NHS should be part of free trade negotiations post Brexit, with British leaders biting back: the NHS is not "for sale"! [3]

So is *universal healthcare* a "basic right" ... or an "unfair" "subsidy"?

U.S. officials have long called out China's state subsidies to its industries even though the U.S. itself has long used subsidies throughout its history.

The development of semiconductor technology, the Internet, and many blockbuster drugs in

the U.S., for example, all arose from government-sponsored research in America's Universities or corporate labs. Silicon Valley grew out of generous subsidies strewn to in the aftermath of WWII.[4] Some of its most prominent companies – Apple, Google and Facebook included – received billions of dollars in subsidies just this past decade alone![5]

Recently, based in part on a 2018 American Chamber of Commerce survey, the Trump administration has taken to berating China for engaging in rampant IP “theft” of American companies through “forced” joint partnerships.[6] China has challenged the U.S. to provide concrete evidence, but to no avail.

Over the last several decades, many American businesses have indeed flocked to China and sought out local partners to help them make products to sell around the world and establish critical beachheads in the Chinese market. The American partners would bring know-how and technology while China would provide cheap, dependable labor and critical manufacturing infrastructure. This was all a *very public* and *welcomed* part of China's opening up.

Perhaps some U.S. companies have recently felt “pressured” by the breaks and incentives offered by some local governments to partner with local businesses and bring technologies and high-skill jobs to their localities. But if so, what of the deal that Trump announced with much fanfare in 2017 offering billions in tax incentives to Foxconn to partner with local businesses and universities to build advanced factories, run R&D facilities, employ high-skill workers, and jointly share and develop intellectual property in Wisconsin?[7]

Global trade was never meant as a platform to structurally suppress the development of another nation. Even with IP concessions, China rightly understood that liberalization would bring unprecedented opportunities for its citizens and businesses to learn from the outside – to copy, imitate, and improve as the case may be – the many “unprotected” ideas that would inevitably flood in. As China moves up the technological value chain, it seems only natural to up the ante and offer top businesses from around the world special incentives and breaks to bring to or develop in China the newest, breakthrough technologies.

It is ironic that Trump today would make “IP theft” such a focal point of his trade war. Over the last couple of decades, China has become a *top producer* as well as *top paying consumer of intellectual property*. In 2018 alone, China filed around 1.4 million patents, more than double that of the U.S.[8] China now ranks second only to the U.S. in global IP royalty payments. Even Microsoft, the poster child of American companies being “ripped off” in the 1990's and early 2000's, has found success in China: developing a dominant market share for its products and running a world-class R&D program there.

Besides berating China of systemic “IP theft,” the Trump Administration has also alleged Chinese companies posing national security risks to nations around the world by potentially working with the Chinese military; criticized Chinese restrictions of direct foreign investments as unfair, illegal, and unacceptable; and slammed China uniquely for carrying out and benefiting from global industrial espionage and cyberattacks.

But if the Trump administration were truly honest about the global national security risks that partnerships between companies and military posed, what of the long list of U.S. companies – from Google to Cisco to Boeing – that have worked – secretly or publicly – with the U.S. military? What of the companies that WikiLeaks have disclosed to have spied

on the world on behalf of U.S. intelligence?

As for restrictions on foreign direct investments, it is the U.S. that has by far the most stringent restrictions on foreign direct investments in the world, with a *Committee on Foreign Investment* that has categorically rejected all major Chinese investments in its technological sectors for over a decade in the name of “national security.” Recently, at the urging of the U.S., the EU has also raised restrictions on its so-called “strategic sectors”[9] and Japan’s restrictions on its technology sectors earlier this year with an eye toward China.[10]

Industrial espionage and cyberattacks is a complex global issue. Traditionally, the world’s biggest practitioners of industrial espionage have been associated with the world’s biggest economies.[11] In 2018, China, Japan, and the U.S. all ranked amongst the hardest hit of countries by cyberattacks,[12] but it was China that ranked among the least prepared against such attacks while the U.S. the best.[13] The claim that China is the chief provocateur and beneficiary of espionage and cyberattacks is simply not grounded in fact.

China today represents a \$600 billion market for the American economy. Several American companies including GM and Qualcomm already sell more in China than anywhere else in the world.[14] China is willing to discuss ways to make trade more sustainable and fair, but that discussion must be grounded in principles of equality and reciprocity.

Many Americans are taught today to think that America’s inequality is a result of international trade. But how many really believe getting back \$1-2/hr jobs from China (or elsewhere) is the key to reviving America’s Middle Class and solving America’s gaping inequality problem?

America’s revitalization cannot start in Beijing. It must start at home with Americans confronting long-ignored structural problems, such as its perpetual runaway military budget, dysfunctional healthcare system, a government long captured by special interests, just to name a few. A prosperous China – like a prosperous Europe or Japan – can raise the water for all. An insecure America that sees a threat in everyone else’s successes will make the world less prosperous and less safe.

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Notes

[1] <https://www.cnbc.com/2019/06/27/china-wants-balanced-trade-deal-at-summit-but-us-isnt-interested.html>

[2] <https://tradingeconomics.com/china/wages-in-manufacturing> and <https://tradingeconomics.com/united-states/wages-in-manufacturing>

[3] <https://www.rt.com/uk/461062-trump-nhs-trade-deal/>

[4] <https://techcrunch.com/2014/07/04/the-government-once-built-silicon-valley/>

- [5] <https://www.breitbart.com/local/2018/07/05/silicon-valley-giants-enjoy-billions-in-government-subsidies/>
- [6] <https://www.scmp.com/news/china/diplomacy/article/2181528/us-right-cry-foul-about-forced-technology-transfer-do-business>
- [7] <https://www.theverge.com/2018/11/5/18064346/foxconn-deal-wisconsin-madison-university-partnership-students-ip>
- [8] <https://asia.nikkei.com/Business/Business-trends/China-keeps-global-crown-in-patent-applications>
- [9] <http://www.europarl.europa.eu/news/en/press-room/20190207IPR25209/eu-to-scrutinise-foreign-direct-investment-more-closely>
- [10] <https://asia.nikkei.com/Politics/Japan-to-restrict-foreign-investment-in-domestic-tech-over-leak-fears>
- [11] <https://www.investopedia.com/terms/i/industrial-espionage.asp>
- [12] <https://www.comparitech.com/vpn/cybersecurity-cyber-crime-statistics-facts-trends/>
- [13] <https://www.cybersecurity-insiders.com/list-of-countries-which-are-most-vulnerable-to-cyber-attacks/>
- [14] <https://money.cnn.com/2018/04/05/news/economy/china-foreign-companies-restrictions/index.html>

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