

# Market Watch

## On trade, Trump could borrow from Reagan playbook

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Want proof that we have short memories? Donald Trump comes along and ta-da! Voters think we finally have a presidential candidate who talks tough on China. What a breath of fresh air!

Fact is, bashing China is about as common for presidential candidates as shaking hands and kissing babies. In 1980, Ronald Reagan talked tough about restoring official ties with Taiwan, only to dump the idea after taking office.

In 1992—three years after the Tiananmen Square massacre—Bill Clinton blasted the “butchers of Beijing,” only to back China’s entry into the World Trade Organization. And four years ago, Mitt Romney said as president, he’d label China a currency manipulator.

Yawn. Trump’s no different than them; he just has a bigger mouth and gets tons of free TV time to spout off. But what is different: Trump could actually do something about China, by taking a page from the Reagan playbook. More on that in a moment.

First, some facts. There’s no question that China cheats on trade. The WTO has handed the U.S. at least three wins in cases in recent years—cases in which Washington successfully argued that Beijing was using illegal trade tactics. President Barack Obama, a free trader, slapped tariffs on Beijing to prevent the illegal dumping of tires in his first term—and just this month the Commerce Department said it would impose stiff tariffs on imports of steel products.

And there’s this ugly fact: China’s joining the WTO in 2001 has been linked, one study claims, to the loss of more than three million American jobs, with our trade deficit with Beijing jumping 254% during that period to a record \$366 billion. I know you’d be shocked to learn that Trump has embellished this, putting the imbalance at “over \$500 billion.” Never mind that American manufacturing jobs have been going bye-bye for half a century. It’s perception that counts in politics and for both Trump and Bernie Sanders, China is a useful piñata.

In the first three months of 2016 Chinese companies have announced deals worth more than \$100 billion. Here are some of the biggest Chinese acquisitions of Western firms. Photo: Ritz-Carlton

Everybody knows what Trump wants to do about our trade deficit with China (and with Mexico) if he wins the White House: jack up tariffs. That's horrible, say Republicans—who claim they're the traditional free trade party. It'll just provoke a trade war and we'll all lose. Oh?

They forget what Reagan himself did during his eight years in office. If China's the bogeyman today, it was Japan in the Reagan era. And Reagan didn't put up with it.

Reagan, a self-proclaimed free-trader, nevertheless attacked Japan during his 1980 campaign, saying it was partially to blame for the floundering U.S. auto industry. Detroit was in big trouble, Reagan said, and Tokyo's "deluge of cars must be slowed while our industry gets back on its feet...if Japan keeps on doing everything that it's doing, obviously there's going to be what you call protectionism."

What happened once Reagan was in office could foreshadow a Trump presidency. The White House leaned on Tokyo to be more restrained about its auto exports. Reagan soon dispatched Commerce Secretary Malcolm Baldrige to Seoul to strong-arm another export powerhouse, South Korea. Said Baldrige: "If your markets are closed, I'll close mine. It's as simple as that." The White House made it clear that they were doing the Koreans a favor by granting them access to the lucrative U.S. market. Reagan, said the Cato Institute, was "the most protectionist president since Herbert Hoover, the heavyweight champion of protectionists," yet his eight years in office are remembered for a robust economic expansion.

Trump says we're always getting screwed by the Chinese. Baldrige, speaking of Japan's dumping of semiconductor chips, said the U.S. simply would not tolerate "flagrant violations of international agreements and a continuing refusal to open markets." American complaints about Tokyo also included accusations of playing currency games with the yen—not dissimilar from Trump's complaints (or Obama's) about the yuan.

But the similarities end there. The Reagan swashbuckling on trade came before the WTO's birth in 1995. Trade disputes between Washington and Beijing are now solved there. Trump could try and deal outside its purview, but in doing so would inflict broader damage to America's standing by showing his contempt for the pillars of international order—the very pillars that the United States itself helped erect.

Trump is also no Reagan in the following respect. The current list of U.S. demands on China is long and substantive. We want them to stop military expansion in disputed regions of the South China Sea. As the world's #1 polluter, we need their cooperation in controlling carbon emissions. To present a united global front against Iran, we asked Beijing — along with Russia, France, Britain and Germany — to work together on the landmark nuclear deal with Iran.

They're really the only country with the leverage to control the crazies in North Korea. We're trying to work together on cybersecurity—a huge issue that has huge economic and national security implications.

Yet Trump seems to see China through the prism of just one issue: trade. While important, to have such a narrow focus is as myopic as it is naive. The Chinese-American relationship—the world's most important and complex—is much more than trade, and, as every prior president knows, every issue must be considered within the broader context of all the others. That Trump seems not to understand, much less appreciate this, is a monumental disqualifier.