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Trump Takes on China in Trade, but Is Wrong With His Attack

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U.S. President Donald Trump stood side by side with Chinese President Xi Jinping on Thursday, despite the fact that Trump continues to depict -- wrongly -- the China-U.S. trade relationship as toe-to-toe.

That relationship is "one-sided and unfair," Trump said in a joint address in Beijing. There's the "shockingly high" trade deficit to consider, he explained. There's also the \$300 billion in the theft of U.S. intellectual property and forced technology transfer that the United States suffers every year, per U.S. government figures.

Trump has, to be fair, delivered on this, the most-important trip of his presidency. He has conveyed more precisely in person his message that the United States is disadvantaged by its trade with China and Japan. He's wrong, but he's right to express himself so clearly when he previously fudged the point when meeting the leaders of those countries on home soil.

At least he won applause from the assembled Chinese and U.S. executives in attendance to hear the two leaders speak. It was for a back-handed compliment.

"I don't blame China," Trump conceded, pausing when clapping began. "Who can blame a country for being able to take advantage of another country for the benefit of its citizens? I give China great credit." Cue more applause.

As in Japan, Trump has been more confrontational on trade than when he previously welcomed both Japanese Prime Minister Shinzo Abe and Xi to his Mar-a-Lago resort. This is the biggest test of Trump's diplomacy skills that he has ever encountered, and some observers suggest the best outcome of the two-week trip for a very undiplomatic man would be that he does no serious damage.

The idea that China is robbing or taking advantage of the United States on trade is wrong. Let's just say that. Trade is a two-way exchange of goods that both sides agree. If you don't like it, walk away.

Trump was wrong in Japan, where he complained that Japanese automakers don't make enough cars in the United States. In fact, three-quarters of Japanese-brand cars are made in U.S. plants, providing U.S. jobs. The likes of Toyota Motor ([TM](#)), at times the biggest maker of U.S. cars, and Honda Motor ([HMC](#)) bailed out the U.S. car industry by building factories.

Running a trade deficit sounds bad, but it is not, as [this piece from the libertarian think tank the Cato Institute explains](#). It often represents that one nation is mature, growing slower and

therefore both demanding goods and exporting capital, often investing in factories in the other nation. The other side is growing fast from a lower base and largely making cheap goods that the other is buying. Then it invests the dollars, in this case, that it earns in U.S. assets.

Global trade is not simple, and it's not a zero-sum game. Consider the complex web of business arrangements that sees Action Alerts PLUS charity portfolio holding Apple (AAPL) design products in California, as it so famously says on the box, then make them in China, minimize tax in Ireland, and then sell them all over the world. Including the United States. Meanwhile, Chinese and U.S. investors alike benefit from the 52% run-up in Apple stock this year -- the product of an enormous trade deficit of phones sold into California alone.

I don't know how economists figure that all out, but I'm going to stick my neck out and say, for simplicity's sake, that it's all good. We get our iPhones, they're well-designed, well-made as well, we like the product, the price isn't too high, a lot of people in China and the United States get paid. Shareholders make money. And we're all happy. What's wrong with that?

The theft of intellectual property is rampant, particularly in China. That needs to be corralled. But Trump has actually pulled the United States out of the Trans-Pacific Partnership, the 12-nation pact that includes Japan but not China. The TPP includes groundbreaking stipulations over the treatment of intellectual property and service industries that are not normally covered in trade deals, which historically focused just on import tariffs put on goods.

Trump laid fault for the U.S. being victimized and preyed upon by China squarely at the door of "past administrations" who allowed an out-of-control trade deficit to occur. "It just doesn't work for our great American companies and it just doesn't work for our great American workers," he said.

The rest of his address, as well as his stay, has been gracious. He welcomed a "fair and lasting engagement" on business matters, and said the United States is working to open up its energy industry. In fact, restrictions on "all other industries" are being "seriously lifted."

This, of course, is glossing over the truth dramatically. Members of the U.S. congress have pressed for tougher requirements on Chinese takeovers and disclosure. Chinese investors have in several instances been refused permission to proceed with merger deals (which, incidentally, would reduce the deficit), normally on national security grounds, particularly in areas related to chip technology.

But Trump has had no time for such details on this trip. He's toured the Forbidden City politely, and says he and Melania have been enjoying the hospitality of Xi and his wife, the popular singer Peng Liyuan.

Chinese officials have decided to trump Trump. The visit is a "State Visit Plus," senior Chinese officials say, smartphone-plus language that will surely please a man who enjoys both flattery and very basic hyperbole.

Trump knows how to play nice and flatter vaguely, too. Xi is coming off "his great political victory," he said ahead of his trip to Beijing. This referred, of course, to Xi's reappointment as the head of the Communist Party at the recent party congress, which left no rivals and no heir apparent.

Xi referenced the fact that "Xi Jinping Thought" has been enshrined in the very essence of the Communist constitution when he spoke after Trump. He prefaced part of his address to the attendant executives: "Let me share with you my thoughts ..."

Those revolved around the same "new era" ideas that Xi expressed at the Communist Party congress: that while still growing at 6.9%, China's economy is slowing, "being upgraded," and shifting from high-speed to high-quality growth; that the country is committed to reform and opening up industries like finance; that state-owned enterprises will be forced to change.

On this occasion, there was another point that the China-U.S. business cooperation has "great potential," with many more areas "for economic cooperation rather than competition." This is surely correct.

There was little of the doubting of the relationship that Trump expressed. "It's natural we may have differences from time to time," Xi said. "The important thing is we act in the spirit of mutual respect and mutual understanding."

In fact, although Trump has pulled the United States out of numerous international pacts and has suggested higher tariffs on foreign goods, Xi said the president has helped China-U.S. trade. "You are a strong driving force for economic cooperation between our two countries," Xi said. He may be wrong on that. I will let you decide!

One of Xi's subtexts, of course, is that China and the United States are peers. They deserve to be on the same stage: leaders, economies, superpowers.

Xi, like Abe in Japan, noted the international nature of the auto industry. I guess it's a visceral industry that's very obvious to count: cars on the road.

U.S. Big Auto in the form of General Motors (GM), Ford (F) and Fiat Chrysler (FCAU) made and sold over five million vehicles in China, Xi noted -- bigger than their combined sales in other parts of the world.

Chinese companies in all industries have also directly created more than 140,000 jobs within the United States, Xi said.

Trump flattered Xi with clear reference to his supremacy as the most-powerful Chinese leader since Mao Zedong. When it comes to dealing with the "rogue regime" of North Korea, "China can fix this problem quickly and easily," Trump asserted.

That's not true, either. China, which is equally frustrated with the antics of Kim Jong-un, would have taken care of the problem already if it was an easy fix. But Trump absolved himself of responsibility for dealing with a problem he has escalated through inflammatory language.

Trump has already visited South Korea, a visit to the demilitarized zone there done in by fog. He goes on to the meeting of 21 heads of state of the APEC nations in Danang, Vietnam, where he also plans on reacquainting himself with Vladimir Putin. Trump will "call on Russia to rein in this potentially very tragic situation," he explained.

In Beijing, he asked for Xi's help. "I'm calling on China and your great president," Trump said, to work on the complete and permanent denuclearization of North Korea.

"If he works on it hard, it will happen. There's no doubt it," he said to more applause. "You know what I mean."