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## China Bashing Is for Losers

### Trade sanctions won't heal the American economy

Shikha Dalmia | October 26, 2010

China bashing has become a bipartisan sport this election season. But if the bashers won't heed the economic case for not knocking down America's second largest trading partner, they ought to consider the political one: Even if they get into office by peddling false economic theories, in order to stay there they will have to produce the right results. This protectionism never has—and never will—deliver.

Every election needs a foreign villain, and with the public Oded on the A-rab threat, our political class has turned its sights further East. And, truth be told, China's autocracy is not helping itself by choosing this moment to halt shipments of rare metals used in wind mills, solar panels and the like. Still, slashing trade with China will do as much to stimulate America's moribund economy as a bitch in heat would to stimulate my neutered dog's libido.

That, however, is not preventing Democrats from pounding the issue. Virg Bernero, the Democratic gubernatorial candidate in Michigan, where I live, has dubbed his opponent, Rick Snyder, Chief Executive Outsourcer (ha, ha). Mr. Snyder's crime is that he is a successful businessman who invested in a semiconductor company that once employed five—*five!*—people in Shenzen to sell its products in China. In other words, it is no longer a sin to buy from China. It is also a sin to sell to China! (Where did Bernero get his views on trade theory, anyway? The Kim Jong Il School of Autarky?)

Nor is Bernero alone in the Democratic Party: California Sen. Barbara Boxer is accusing her opponent Carly Fiorina, former CEO of Hewlett Packard, of outsourcing thousands of jobs to "Shanghai instead of San Jose"; Senate Speaker Harry Reid is calling Sharron Angle "a foreign worker's best friend"; and Richard Blumenthal, Connecticut Attorney General running for Senate, who lied about serving in Vietnam, has the temerity to attack his opponent, the former CEO of World Wrestling Entertainment, for "outsourcing" American jobs because her company got toy action figures manufactured in China instead of America.

Hostility to trade is par for the course for Democrats perennially beholden to Big Labor, but what is the excuse of Republicans—the alleged believers in free markets? In race after race, they too are hitting China to beat Democrats. In West Virginia, Spike Maynard, a

Republican running for the House is airing ads against his opponent, complete with Asian music in the background, castigating him for giving stimulus money to a Texas company that happens to be buying windmills from China. Meanwhile, in Virginia Republican Robert Hurt is accusing Rep. Tom Perriell of supporting tax breaks for foreign companies “creating jobs in China.”

But perhaps the blame doesn't lie with these minions who are, after all, only capitalizing on the frenzy whipped up by this White House: For over a year, it has been accusing China of deliberately depressing the yuan against the dollar and threatening to brand it as a currency manipulator. Some might regard an artificially low yuan as a gift to American taxpayers given that it lowers their cost of financing America's massive debt from China. But not this administration. It blames the low yuan for widening America's trade deficit with China, costing export jobs.

This claim is no doubt calculated to deflect attention from the administration's failure to make even a small dent in America's unemployment rate after over \$1 trillion in stimulus spending. The fact of the matter is that there is no good evidence that a higher yuan necessarily equals a lower trade deficit. Between 2005 and 2008, notes Dan Ikenson, Cato Institute's trade policy analyst, the yuan rose 21 percent. But the trade deficit, instead of going down, went up by \$66 billion. Why? Because while a stronger yuan increases the dollar price of Chinese goods, it also lowers the yuan price of foreign raw material, allowing Chinese manufacturers to keep a lid on the price of their finished goods.

But the idea that selling abroad creates jobs at home and buying abroad destroys jobs at home is an old mercantilist fallacy that Adam Smith handily refuted more than 200 years ago. Back then it at least had intuitive plausibility, but today it is obviously false given that the manufacturing chain spans the whole globe. Indeed, under the intricate global division of labor that currently exists, the whole idea of “Made in China” is largely a bureaucratic fiction.

Think about the IPod, for instance. It is designed in America and its 451 parts are made in dozens of different countries. But just because it is finally assembled in China, it officially counts as a Chinese import and therefore a contributor to America's trade deficit—never mind that the Chinese add only \$4 to the IPod's \$150 final value. Imposing duties on IPods to slash the deficit, then, won't just cost Chinese jobs in Beijing assembly plants, but American jobs in Cupertino (Apple's headquarters) computer labs.

But if raising the barricades against Chinese products will hurt highly-paid techies in America, it will hurt working class folks even more.

Consider the research by University of Chicago economist Christian Broda. Contrary to conventional wisdom, he found that inequality in this country has gone down—not up—thanks to trade with China. Between 1994 and 2005, he found, any rise in income inequality was offset by a decline in prices of goods consumed by poorer households. Indeed, inflation for the richest 10 percent of U.S. households, which tend to spend more on services, was 6 percent higher than the poorest 10 percent, who spend more of their income on household goods supplied by China. “In sectors where there is no Chinese

presence,” Broda has pointed out, “inflation has been more than 20%.” In short, China has likely done more to help America’s poor than the stimulus, TARP or any other program invented by Uncle Sam.

This brings us to the political folly of China bashing: There is no doubt that the notion that China should be stopped from taking away “American” jobs has a powerful appeal for many voters. But what candidates need to consider is this: Voters are utterly fickle. They might share your bad ideas and even elect you because of them. But, ultimately, if these ideas don’t produce the desired results, they won’t blame themselves or their support for these policies, they’ll blame you. In a democracy, voters are ruthlessly and irrationally results oriented.

Republicans and Democrats are sowing the seeds for their own destruction by running on an anti-China platform. Rather than vilifying China, they would do themselves—and the American economy—a world of good by trumpeting the benefits of trade with it. There is not just a very good economic—but also a very good political—argument for taking a more enlightened approach to China.

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