

China Isn't Cheating on Trade

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Democrats and Republicans echo Trump's anti-Beijing rhetoric, but escalating tensions could leave Americans far worse off.

News reports suggest that in the coming weeks, the United States and China will sign an agreement that repeals the tariffs the two nations have been levying on each other's goods for the past nine months. If past behavior is any guide, Donald Trump will call it the greatest deal ever, and global markets will breathe a sigh of relief. But the deal will likely constitute only a modest pause in Washington's growing hostility toward Beijing.

That's partly because, for Trump, no agreement is truly final. The president, *The New York Times* recently observed, "has repeatedly agreed to new trade terms with foreign partners, then talked about undoing those deals to achieve additional goals." Trump has already begun to renege on commitments made as part of the United States–Mexico–Canada Agreement, which he hailed as "incredible" in October.

But the slide toward cold war with China will likely continue for reasons that go beyond Trump himself. While Trump's language is particularly extreme—during the 2016 campaign, he portrayed the relationship between the Chinese and American economies in the language of rape—describing Beijing's economic behavior as predatory, and demanding that America respond with punishments and threats, has become commonplace in both parties. From Elizabeth Warren, who earlier this year claimed that China has "weaponized its economy," to Marco Rubio, who last year tweeted that the Chinese aim to "steal & cheat their way to world dominance," leading Democrats and Republicans describe China's economic practices as uniquely malevolent and getting worse. In fact, neither accusation is true.

The u.s.-china relationship is, of course, about more than economics.

Politically, Beijing is growing more authoritarian, as evidenced by its Orwellian domestic-surveillance policies, its mass internment of Muslim Uighurs, and the cult of personality now developing around Chinese President Xi Jinping. Militarily, China increasingly dominates the South China Sea. And before Trump took office, these illiberal and expansionist trends were already prompting disillusionment and alarm among longtime China watchers in the United States.

What has changed in the Trump era is that America's economic ties to China—once the ballast that stabilized a relationship buffeted by tensions over geopolitics and human rights—are now driving the antagonism. On the subject of China, as Mike Pence declared in October at the Hudson Institute, "a new consensus"—that only a far tougher U.S. trade policy can prevent Beijing from continuing to rip off America—"is rising across America." Only three years ago, during the 2016 presidential campaign, Rubio warned that "we need to be very careful with

tariffs” against China because the cost “gets passed on in the price to the consumer.” Last year, he criticized Trump for not implementing tariffs fast enough. For their part, top Democrats have scrambled to out-hawk Trump on trade. In May, when Trump retreated from sanctions against the Chinese telecommunications giant ZTE, he was reprimanded by senators as diverse as Bernie Sanders, Chuck Schumer, and the pro-business Virginia moderate Mark Warner. Already, top Democrats and Republicans in Congress are warning that Trump’s China trade deal won’t be tough enough.

Complaints like these have come to dominate Beltway discourse not because the evidence underlying them is particularly strong. It isn’t. They have come to dominate Beltway discourse because Democrats and Republicans both believe that Trump’s anti-China message helped him win Pennsylvania, Ohio, Michigan, and Wisconsin, and that the path to the presidency runs through those states again in 2020. The political incentive to be tough on China over trade today is blinding politicians to the risks of an escalating conflict that could leave Americans poorer, less free, and—perhaps—even at war.

In 1961, the psychologist Charles Osgood warned of what he termed the “cold-war mentality”: a tendency “to perceive our adversaries as all bad and to perceive ourselves as all good.” Cold wars make it harder to acknowledge that competitors have legitimate fears and interests. It was a cold-war mentality that kept America’s leaders from recognizing that America’s foes in Vietnam saw themselves as fighting for national independence, not global communist domination.

The perception that China is cheating America economically is having a similarly befogging effect today.

Beijing’s economic policies are actually quite typical of a country at its stage of development. Like many regimes in the developing world, Beijing fears the “middle-income trap,” in which rising wages undermine its advantage as a center of low-cost manufacturing before it develops the capacity to produce higher-value goods. China worries that unless it moves from assembling iPhones to inventing them, economic growth will stagnate and popular unrest will follow.

China therefore erects tariffs to protect industries it hopes will help it make that leap. So did the United States when it was industrializing. “Give us a protective tariff,” declared Abraham Lincoln in 1844, “and we will have the greatest nation on Earth.” So do many developing nations today. China has a lower trade-weighted average tariff than Argentina, Brazil, India, South Korea, Indonesia, South Africa, Turkey, Russia, Saudi Arabia, and Mexico.

Beijing also requires many American companies to create joint ventures with Chinese firms in order to sell to Chinese consumers—joint ventures that, in Pence’s words, require American businesses “to hand over their trade secrets as the cost of doing business in China.” Last summer, a White House report cited these joint ventures as evidence of “how China’s economic aggression threatens the technologies and intellectual property of the United States and the world.”

But here, too, China isn’t doing anything exceptional. According to the U.S. Chamber of Commerce, which last year ranked countries on how well they protect the intellectual property of foreign companies, China scored fairly well among developing nations: just below Mexico and Malaysia but above Turkey, Brazil, South Africa, and the Philippines. A 2017 study of cases in which foreign companies sued for patent infringement in Chinese courts by Renjun Bian of the

University of California at Berkeley School of Law found that foreign companies actually prevailed at higher rates than did Chinese litigants.

Other critics focus on the way the Chinese government subsidizes its industries, thus giving them an unfair advantage. There's a germ of truth here: Beijing pours money into promising companies in ways the United States and most European governments do not. But this isn't unusual among developing economies either. According to the Heritage Foundation's annual index of "economic freedom," which measures state intervention in the economy, China actually intervenes less than India, Vietnam, and Brazil, some of America's best friends in the developing world.

Top Democrats and Republicans don't only exaggerate the uniqueness of China's trade practices. They insist that only harsh American retaliation can remedy them. From Warren, who last year accused recent presidents of having "told ourselves a happy face story [about China] that never fit with the facts," to Pence, who claimed that "previous administrations all but ignored China's actions," leaders in both parties suggest that until Trump, American presidents sat back while Chinese predations grew worse.

That's false. To the extent that Bill Clinton, George W. Bush, or Barack Obama believed that China's integration into the global economy would lead it to democratize or accept American dominance in East Asia, they were clearly wrong. But while China has grown more repressive politically, it has simultaneously opened its economy to outside trade and investment. In the late 1990s, before China joined the World Trade Organization, only about 35 percent of foreign direct investment in the country occurred through wholly foreign-owned companies as opposed to joint ventures. By 2017, that figure was 70 percent. While joint ventures remain a concern for U.S. companies, noted Nicholas Lardy of the Peterson Institute for International Economics in a report in December, "the problem is receding." Similarly, a 2018 U.S. Chamber of Commerce study on intellectual property found that "unlike many of its [developing economy] peers, China is making concrete progress in building a 21st century national IP environment." The reason: As Chinese companies have grown better at inventing new technologies themselves, the Chinese government has grown more interested in creating a legal system that protects inventions from being ripped off. In other words, China is making the very transition that previous presidents hoped it would. Bloomberg's David Fickling calls it a "natural evolution. Countries tend to be slapdash about IP until they get sophisticated enough to have a lot of their own IP to protect."

Trump's predecessors also curbed Chinese industrial espionage. In September 2015, the Obama administration inked an agreement with Beijing pledging that "neither country's government will conduct or knowingly support cyber-enabled theft of intellectual property ... with the intent of providing competitive advantages to companies or commercial sectors." (The agreement did not curb cyberattacks aimed at military rather than commercial advantage.) Ignoring that agreement, Pence in his Hudson speech accused "Chinese security agencies" of having "masterminded the wholesale theft of American technology." But the Trump administration's own National Counterintelligence and Security Center last year admitted that, while China still hacks into American companies (something the United States has also allegedly done to Chinese companies), such activity occurs "at lower volumes than existed before the bilateral September 2015 U.S.-China cyber commitments." In other words, diplomacy worked.

Trade hawks might claim that all this isn't good enough. China's economy is so massive—and its disruptive effects on the United States and other competitors are so large—that China can't act like other developing nations. It must move rapidly toward the kind of openness to foreign trade and investment typical of Europe and the United States.

It's a reasonable argument. But the best way to accelerate China's transition is to build alliances with other governments concerned by its economic practices, and to use that common leverage to press Beijing. That was part of the strategy behind the Trans-Pacific Partnership, through which the United States and 11 other Pacific nations would lower their barriers to trade and investment. When the TPP's prospects looked bright, China reportedly began considering joining itself, which could have compelled it to make some of the very changes Trump is demanding now. But in 2016, Trump, with the help of progressive Democrats such as Sanders, made TPP politically radioactive. And since taking office, rather than making common cause with Canada, Japan, France, and other democracies aggrieved by China's trading practices, his administration has slapped tariffs on them. All of which has isolated the United States and left it seeking concessions from China that would be easier to secure were the Trump administration not working alone.

One natural forum for such multilateral pressure is the World Trade Organization, which allows countries to bring claims against one another for unfair trade practices. Historically, the United States has been one of the WTO's most successful plaintiffs. But according to Simon Lester of the Cato Institute, the Trump administration has brought only two new cases against China at the WTO. And Trump officials, in keeping with their general hostility toward international organizations, regularly trash the organization. A 2018 report from the office of Trump's trade representative, Robert Lighthizer, declared that “the notion that our problems with China can be solved by bringing more cases at the WTO alone is naïve at best.”

But it's not Xi who is crippling the WTO. It's Trump. According to a November 2018 Cato Institute report, “China does a reasonably good job of complying with WTO complaints brought against it.” The Trump administration, by contrast, has systematically blocked the reappointment of judges on the WTO's dispute-settlement body and thus, according to Reuters, has “plunge[d] the organization into crisis.”

Nothing illustrates the self-destructive absurdity of Trump's behavior better than what happened this March. The WTO, responding to a case brought by the Obama administration, ruled that China must reduce its agricultural subsidies. China is appealing that decision to the WTO's appellate court. But because the Trump administration has blocked the appointment of new WTO judges, that court may not be able to rule, which means China won't have to comply.

Trump's unilateral get-tough approach could prove costly in other ways, as well. Last summer, Congress—in an overwhelming bipartisan vote, and with China in mind—passed a law enabling new restrictions on the export of “emerging and foundational technologies.” But in one crucial emerging field, artificial intelligence, The New York Times recently noted that “research on the technology is often done collaboratively by scientists and engineers all over the world.” Which means that if American researchers cannot easily share their work with foreign counterparts, they may fall behind. Similarly, the Eurasia Group has warned that “U.S. efforts to increase scrutiny of Chinese STEM students, and to limit or reject their U.S. visa terms and applications, will reduce the flow of creative talent into the U.S.” If Chinese companies forge high-tech collaborations in Europe and Chinese students forge scientific breakthroughs at laboratories in

Australia, American politicians—in their effort to quarantine China from global innovation—may end up quarantining the United States instead.

But a cold war with China threatens more than American competitiveness. It threatens American liberty. At the dawn of the Cold War with the Soviet Union, Harry Truman created the Federal Employee Loyalty Program, which authorized the FBI to expel leftists from the federal bureaucracy. Later that year, his attorney general published a list of “subversive” organizations, forcing many of them to close, and the FBI began deporting politically suspect immigrants.

Another cold war could again threaten the rights of Americans suspected of sympathy for the enemy. Except that this time, the victims will likely be of Chinese descent. From the 1885 massacre of Chinese railroad workers at Rock Springs, Wyoming, to the Japanese internment during World War II to the murder of Vincent Chin by a laid-off autoworker during the panic over Japanese economic competition in the 1980s, the United States has a long history of anti-Asian bigotry, especially during periods of conflict with Asian governments.

There are already warning signs. In 2014, FBI agents marched Sherry Chen, a hydrologist at the National Weather Service, from her Ohio office in handcuffs for being a Chinese spy. In 2015, they handcuffed and strip-searched the Temple University physics professor Xiaoxing Xi, also for suspected espionage. Both cases were dropped after it became clear that Chen and Xi had done little more than correspond with people in China. But their experiences are all too common. Since 2009, according to a 2017 study by the Chinese American Committee of 100, Asian Americans have been twice as likely as other Americans to be the subject of bogus prosecutions (prosecutions that don’t result in a conviction) under the Economic Espionage Act. Trump himself in August reportedly claimed that “almost every student that comes over to this country [from China] is a spy.”

Most dangerously of all, cold wars often turn hot. In his book Destined for War, Harvard’s Graham Allison surveyed 16 cases in which a rising power challenged a status quo power: Twelve ended in war. In the cases that did not, “it required huge, painful adjustments in attitudes and actions on the part not just of the challenger but also the challenged.” The ethos now prevailing in Washington will make those adjustments harder. The more trade hawks decouple America and China economically, the less incentive the two countries will have for mutual accommodation, since, as the Rand Corporation’s Ali Wyne has observed, “there are few factors . . . besides trade interdependence that compel the United States and China to exercise mutual restraint.”

The “painful adjustments” that America must make to accommodate China are more painful because the United States government has done so little to cushion Americans from the dislocation caused by China’s economic rise. If Americans who lost their jobs didn’t also lose their health care; if they had access to generous government wage subsidies, retraining programs, and even guaranteed federal jobs; if paying for college didn’t plunge them and their children into debt—then the political incentive to scapegoat Beijing might not be as great. Over the past two decades, American politicians have not proved weak and inert in responding to China’s real and imagined misdeeds. They have proved weak and inert in responding to their own citizens’ needs. The reckoning Washington requires is not with China. It’s with itself.