



Simon Lester: Trump is wrong to be 'tough' on trade with China

Simon Lester

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President Trump seems to think he is in the midst of a hard-nosed negotiating battle with China, and talking tough is a big part of that. His morning Twitter rants often include barbs aimed at China. And he has a bipartisan batch of legislators cheering him on.

Senate Minority Leader Chuck Schumer, D-N.Y., has urged Trump to "hang tough on China," as "strength is the only way to win."

And Sen. Lindsey Graham, R-S.C., has told the president, "We're behind you!"

Toughness has its merits, but it also has its limits. Butch Cassidy and the Sundance Kid were certainly tough when they emerged from their hideout and began shooting at the Bolivian soldiers who had surrounded them. But sometimes it is better to look for smart strategies rather than tough ones.

Unfortunately, Trump's approach to the China trade issue is tough but unlikely to be effective. It relies exclusively on unilateral tariffs, and as a result, any deal that is reached will not be the best one possible. Instead of pushing him to come out with guns blazing, members of Congress should argue for a strategy that would work much better: Cooperating with allies to put more pressure on China.

There is widespread agreement around the world that China engages in protectionist and other problematic trade practices: failure to protect intellectual property adequately; high tariffs; restrictions on foreign investment; forcing foreign investors to transfer technology to their joint venture partners; industrial subsidies; state-owned enterprises that compete unfairly; and opaque regulatory practices that can be used to discriminate against foreign companies.

The only debate is about what to do about this. The Trump administration has chosen to go it alone, by imposing tariffs on China in a way that violates the rules of the World Trade Organization (WTO). In the view of the Trump administration, these tariffs have "forced China to the negotiating table," but that is a misconception, as the Obama administration was already in

the midst of its own negotiations on investment with China (which the Trump administration seems to have abandoned).

Regardless, so far the only outcome from Trump's tariffs has been economic pain on both sides, as China has retaliated with tariffs of its own: consumers in both countries pay higher prices, and many producers in both countries suffer as their exports are suddenly at a disadvantage.

The administration has convinced many people in Washington that tariffs were the last resort, because nothing else has worked with China. But this talking point from the administration is wrong. In fact, there are better options that have not been tried yet.

The first important change in strategy is that confronting China would work much better if undertaken through a coordinated effort. The Europeans, Canadians, Mexicans, Japanese, Brazilians and many others all have concerns about Chinese trade practices. The administration should reach out to those allies and work together.

A key part of this coordinated effort will be to remove the tariffs and quotas imposed on these allies under the Section 232 statute, ostensibly for "national security" purposes, but generally recognized as being simple protectionism. These countries are less inclined to work with us on problems with China when we are attacking them on trade as well. The Trump administration has just removed the tariffs on Canadian and Mexican imports, but tariffs on other countries remain in place.

After organizing this group effort, the United States and its allies should take a two-pronged approach: file complaints against China at the WTO under the various provisions that apply here (China is under greater obligations than most countries, as per the terms of its accession), and negotiate new rules in a multilateral agreement with China.

An important part of the negotiation is that the United States and its allies have to be willing to give something. A one-sided deal is difficult for any country to accept, and this is certainly the case for China, given its history with unequal trade treaties with Western countries. For example, in exchange for China lowering its tariffs, the United States and its allies could agree to abandon the special, more onerous, calculation method used for China and a few other countries when setting anti-dumping duties.

Beyond the negotiations with China, the United States should also be negotiating trade liberalization directly with these same trading partners. The preferential trading arrangements that result would put China at a disadvantage and put pressure on it to liberalize. Unilateral tariffs have led to Chinese tariffs in response, but tariff liberalization could put pressure on China to pursue its own liberalization so as not to be at a disadvantage.

The Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership that the Obama administration worked on were examples of this. So far, however, the Trump administration has mostly spent time tweaking existing trade agreements. Putting the emphasis on new liberalization of this kind would have its own benefits, but would also be useful for encouraging a deal with China.

If none of that works, then tough tactics — a unified front to impose new tariffs on China or a discussion of whether China belongs in the WTO — are appropriate. But the Trump administration's approach has ignored or undermined these smarter options. The first step is to abandon the current, flawed approach, which has led only to tariffs in both directions.

It is possible to push China in the continued direction of reform. Think about the progress it has made since 1978. But reform in China will not happen with a trade policy that slaps tariffs on all U.S. trading partners and turns our allies into foes.

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