

Can the U.S. Hit the Reset Button with China?

Daniel Tenreiro

October 11, 2019

Early reports suggest that the U.S. and China have agreed to a tariff ceasefire after two days of trade talks. Under the deal, China will apparently increase its purchases of American agricultural products and agree to cease its alleged currency manipulation. As in the past, this truce will be celebrated by the White House, but it doesn't mean that significant reforms are on the horizon.

There is growing concern — even among those who view Chinese business practices as a threat — that the White House is moving in the wrong direction on the trade war. But after imposing tariffs on \$250 billion of Chinese goods, any retreat on our part could be viewed as a capitulation.

Oren Cass, senior fellow at the Manhattan Institute and domestic-policy adviser for Mitt Romney's 2012 presidential campaign, says that "we're in a staring contest, and not an especially constructive one." Trump may have been right to address Chinese malfeasance, but he failed to communicate a coherent strategy to the American public.

Much like shooting wars, trade wars require a public willing to incur costs. But rather than acknowledging that the confrontation would be painful, Trump argued that tariffs would generate benefits for the American economy. "Envision FDR at the start of World War II getting up and saying, 'World wars are easy to win,'" Cass says.

A clear timeline of tariffs — enumerating the products that would be taxed, the rate of taxation, and the escalatory steps to come — would have minimized uncertainty for businesses and consumers. Instead, the White House has argued that tariffs are meant simultaneously to reduce the trade deficit, liberalize Chinese markets, stop intellectual-property theft, and decouple the American and Chinese economies — goals that don't sit easily together.

According to the Cato Institute's Scott Lincicome, a more effective strategy would involve more multilateral coordination, especially through the World Trade Organization (WTO). Contrary to popular belief, China complies with adverse WTO decisions about as often as the U.S. does, and Lincicome argues that by filing disputes through the WTO — aggressively, persistently, and in partnership with other WTO members — the United States could wring concessions from the Chinese without harming domestic manufacturers and farmers. If China flouts WTO rulings, the U.S. will have stronger grounds to impose unilateral tariffs.

Multilateral actions should be taken in tandem with increased regional coordination, Lincicome says. Within the WTO, the U.S. could institute product-level agreements with like-minded countries, as well as negotiate free-trade agreements such as the Trans-Pacific Partnership. By withdrawing from the TPP, Trump squandered leverage against the Chinese, Lincicome argues: While “encouraging the diversification of manufacturing supply-chains out of China and into other Asian economies, we still maintain higher levels of tariffs on imports from those other Asian countries.”

In Lincicome’s view, there is room for unilateral action, but it should bear resemblance to American sanction policy, which “attacks specific bad actors, while minimizing the damage to American consumers, companies, and the U.S. economy.” Derek Scissors of the American Enterprise Institute agrees. He believes companies that steal intellectual property or violate human rights should be issued a Department of Commerce denial order, preventing them from doing any business with American firms.

But unlike Lincicome, Scissors argues for this policy as part of a broader “economic decoupling.” A short-term reduction in exports will not persuade China to fundamentally alter its development model. “Xi Jinping has been in power now for seven years,” Scissors points out. “He’s not a reformer — he’s not going to reform.”

Scissors therefore believes the U.S. should minimize its exposure to bad Chinese practices. That would include capital controls against China as well as trade and investment restrictions, but not necessarily tariffs — a blunt instrument ill-suited to punishing specific misbehavior.

Yet despite the existence of more-effective alternatives, the White House has mostly stuck to its course. In doing so, Trump has painted himself into a corner. If he retreats, it will be viewed as a win for Xi — a hard political pill to swallow. Today’s temporary ceasefire is far from the end of the trade conflict with China.