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What the China Trade Warriors Get Wrong

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After three intense presidential debates, Hillary Clinton and Donald Trump managed to agree on at least one thing: The Trans-Pacific Partnership is bad for America, in part because many trade deals have supposedly caused trade deficits. Unfortunately, they're both wrong. The country would be better served by candidates who speak frankly about the complexity of international commerce—rather than offer murky platitudes about supposedly harmful trade agreements.

The U.S. had a $334.1 billion trade deficit with China in 2015, including services, according to the Commerce Department's Bureau of Economic Analysis. It also had a $77.3 billion deficit with Germany and $55.4 billion with Japan. What do all these countries have in common? None have trade agreements with the U.S. Mr. Trump can't "renegotiate" trade deals that were never negotiated.

The U.S. also maintains trade surpluses with many countries. It ran a $31.7 billion trade surplus with Hong Kong last year, $12 billion with the United Kingdom and $17.5 billion with Singapore. Although a few trade surplus partners have free-trade agreements with the U.S., it would be incongruous to attribute both surpluses and deficits to such accords. This bipartisan hullabaloo about some alleged link between trade deals and trade deficits is simply false—politically convenient fiction.

Trade critics might instead tie the rise of China's exports to its joining the World Trade Organization (WTO) in 2001. Peter Navarro,Mr. Trump's trade adviser, said in a recent interview that Bill Clintonlobbying for China's entrance into the WTO "was the worst political and economic mistake in American history in the last 100 years." He added that "China had much higher tariffs than everywhere else, so the U.S. and Europe in particular got the short end of that stick."

Mr. Navarro is wrong too. China joining the WTO had zero effect on U.S. tariffs against Chinese imports. But it did force China to cut weighted-average tariffs to 19.8% in 1996, down from 32.2% in 1992, according to World Bank estimates. They shrunk further to 14.6% in 2000 and 3.2% by 2014. Yet U.S. tariffs remained unchanged by China's entry into WTO, staying between 2% and 3% on a weighted average.

To be accepted by WTO members, China also had to shut down state industries after 1995. In a 2005 article for the China Economic Review, John Giles of Michigan State and Albert Park of the University of Michigan, with Juwei Zhang of the Chinese Academy of Social Sciences, investigated China's true unemployment rate. They found that China's "aggressive restructuring led to the layoffs of 45 million workers between 1995 and 2002, including 36 million from the state sector." If China's entrance to the WTO was about "stealing jobs," it certainly got off to a bad start. Even in the world's most populous country, those tens of millions of lost jobs had a big effect.

In an August 2015 paper for the National Bureau of Economic Research, Johns Hopkins economists Robert Moffitt and Yingyao Hu, with Shuaizhang Feng of Shanghai University, estimate that the unemployment rate in China stood at around 3.9% between 1988 and 1995, "when the labor market was highly regulated and dominated by state-owned enterprises." It then rose greatly between 1995 and 2002 and hit an average of 10.9% between 2002 and 2009.

A frequently misquoted source of the assumption that China's industrial gains were due to WTO membership is a paper called "The China Shock" by MIT economist David Autor and his colleaguesDavid Dorn and Gordon Hanson. A Wall Street Journal article about this China shock said, "Imports from China as a percentage of U.S. economic output doubled within four years of China joining the World Trade Organization in 2001. . . . By last year, imports from China equaled 2.7% of U.S. gross domestic product."

Those numbers might appear to suggest U.S. imports surged after 2001, but it was actually Chinese imports that exploded. China's global imports jumped to 29.2% of GDP in 2005, according to the World Bank, up from 18.3% in 2001. Meantime, U.S. exports of goodsto China quickly rose from $19.2 billion in 2001 to $69.7 billion in 2008, according to the Bureau of Economic Analysis. With services added, the U.S. exported $169.2 billion worth of goods and services to China by 2014.

U.S. global imports recovered modestly from 13.1% of GDP in the recession of 2001 to 15.5% in 2005, according to the Bureau of Economic Analysis. A decade later, U.S. imports were still 15.5% of GDP—the same as 2005. The fact that China's share of U.S. imports was up and Japan's down did not mean the U.S. was importing more.

Despite the popularity of their research among free-trade opponents, Messrs. Autor, Dorn and Hanson don't attribute China's export growth to joining the WTO. Rather, they explain that China's export growth came from the proliferation of market-friendly special economic zones, including free-trade zones. Before joining the WTO, China's exports had already risen 14.2% a year from 1994 to 1999. In a recent interview with the Minneapolis Fed, Mr. Autor saidthe research "strongly confirmed" that China's success was driven by "falling costs and rising quality."

When talking about trade, both presidential candidates have been marching voters down a dead-end street. Mr. Trump and Mrs. Clinton claim larger imports or trade deficits are associated with weaker economic growth, which is the opposite of the U.S. experience. Before peddling risky solutions to a misunderstood problem—such as threatening huge tariffs on countries or U.S. companies—the candidates might first take more care to understand, define and explain what they are hoping to fix.

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