Trump's China Dilemma

By Derek Scissors

Time for less talk and more smart action.

President Trump should stop talking about China and act. First-quarter trade numbers show his "phase one" deal is a non-starter for 2020, not to mention dwarfed by Covid-19. The president's elevation of selling more to China above everything else has frozen his administration and the congressional leadership of both parties. Those serious about changing the U.S.-China relationship have many other options.

The United States reported March goods exports to China—the first full month where phase one applies—as 25 percent lower than March 2019. The reason seems obvious, but China claimed its March imports were basically flat. The United States fell far short when it should have outperformed China's other partners.

Breakdowns for specific products aren't available yet on our side. China reported a surge in farm imports from the United States, though from a very small base. Its energy imports from the United States were nearly non-existent in the first quarter. Global overcapacity and Covid-19's disruption mean American manufacturing and services exports to China are unlikely to get anywhere near 2020 targets.

The phase one deal was a questionable response to China's predatory economic behavior. It's no response at all to Covid-19 or China's ensuing predatory diplomatic behavior. There are much better policies (and some no better):

■ Abandoning phase one is a necessary step but will have little impact, since there probably won't be much to abandon. Congress was not allowed to ratify it and the decision is entirely in President Trump's hands. Clinching phase one was a top reason for imposing tariffs. Without it…

Derek Scissors is a Resident Scholar at the American Enterprise Institute. This piece originally appeared on AEIdeas, a public policy blog published by AEI.

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220 I Street, N.E., Suite 200
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Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

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■ More tariffs won't help. In 2019, U.S. goods and services imports from China fell $87 billion. It's early, but 2020 imports from China are currently on pace to fall more than $100 billion without any further tariffs. This is one reason not to obsess over the trade deficit—it's automatically lower when the economy is weaker.

If imports do fall another $100 billion, it will hurt China more than the United States, because we can find substitute supply easier than they can find substitute demand. But $100 billion is less than 4 percent of what we'll spend on Covid-19 this year. If China's held responsible for 4 percent, who's responsible for the rest? Tariffs won't help the economy or help the president politically.

■ Canceling the part of our national debt held by the PRC won't work and would be a bad idea if did. It won't work because American debt is not held in a pile in the People's Bank of China's vaults. It's a globally and frequently traded reserve asset. Targeting China is much harder than it sounds.

It would be a bad idea because we're about to ask the world to buy much more debt. Part of its value is in being easily traded after purchase. If buyers thinks it's less easily traded due to threat of cancellation, the debt's value will fall. The U.S. government will have to offer a higher interest rate and take a budget hit.

■ We are well overdue in starting to move Covid-related supply such as protective equipment out of China. Congressional leadership has failed to ensure there will be laws as soon as possible, despite the introduction of bills in mid-March. The Trump administration has just yapped for weeks.

Yes, output in the United States should be encouraged, but there should also be mandates. The International Emergency Economic Powers Act is one tool. No Covid-related chains for the United States should run through China without a specific, time-bound exemption. Unnecessary dependence on China during a fall Covid resurgence would be morally outrageous—asking the guy who set the fire to help put it out. Again.

■ Going beyond Covid-related goods, while not urgent, is overdue. Congress should consider what imports from China may become critical. These could include widely used pharmaceuticals not relevant to Covid-19, a few "rare" earth elements, and the material and equipment needed to make advanced semiconductors.

If deemed critical, the goal should again be to move supply chains serving the United States out of China. Because this is not as pressing, legislation or executive action can be designed for flexibility with regard to implementation time and which countries can participate in new chains.

■ Deciding on the previous options should be easy. The tough call is a partial but broader decoupling. Technology and finance are at the heart of this choice. Cooperation in advanced technology includes conventional exports to China but also research on college campuses and in third countries (deemed exports). Congress mandated tighter export controls in 2018—where are they?

Financial restrictions may be disturbing to some. But it makes no sense to try to move certain areas of production out of China while allowing American capital to support that production in China. It will be difficult enough to overcome China's massive subsidies, which will only rise in response to decoupling pressure. Some outbound U.S. investment must be curbed.

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If it were easy to split from China, we'd have started as Covid-19 spread in January, when they threw hundreds of thousands of people into reeducation camps, while they were stealing tens of billions in intellectual property, and so on. It will have costs. But many of those insisting it's a bad time to act are personally committed to there never being a good time. Implementation can happen in phases; change is required now. ◆