

Opinion **US-China trade dispute**

## Donald Trump trade threats lack credibility

US bluster has caused most of the world to rally to China's side

**LAWRENCE SUMMERS**



US President Donald Trump: his rhetoric notwithstanding, it is wrong to say nothing has been achieved through negotiation with China © AP  
Lawrence Summers YESTERDAY

As the possibility of a trade war between the [US](#) and [China](#) looms, [threats and counterthreats](#) are hurled back and forth and markets gyrate, economic logic and truth appear to be an early casualty. There are certain points of fact on which there should be no disagreement.

First, globalisation and trade have caused significant disruption to the US economy but this has had little to do with trade agreements of the last generation. It is now clear that increased imports especially from China have inflicted substantial burdens on manufacturing workers, particularly in the the north central part of the country. Where too much conventional analysis goes wrong is in attributing this to trade agreements and in failing to recognise offsetting job gains from exports.

The reality is that the US economy was largely open by the 1980s and that every major trade agreement has reduced other nations' trade barriers by far more than it altered any American trade barriers. This is most true of China's 2001 accession to the WTO, in which the US only committed to continuing to keep its markets open on the most favourable nation terms that had already been ratified each year for more than a decade but won major changes in Chinese economic policy.

The real reason for economic disruption was not trade agreements but the emergence of emerging markets as major participants in the global economy. This is not something the US could stop or,

given its export interests and broader interests in global co-operation, could plausibly aspire to contain.

Second, much of President Trump's rhetoric notwithstanding, it is wrong to say nothing has been achieved through negotiation with China. Only a few years ago, China's current account surplus was the largest relative to GDP among significant countries, it was holding its currency down to maintain demand for its exports, and most software used on its personal computers and videos on sale in its major cities were pirated.

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Today China's global surpluses are far below past US negotiating targets of a few years ago, China has spent about \$1tn propping up its currency, and IP protections are far better enforced than a few years ago for major US software and video producers. Of course major issues remain but the view that multilateral pressure without bluster is ineffective is belied by experience.

Third, extraction of IP through joint venture requirements is largely a problem for companies outsourcing production from the US and not for American workers. Corporations headquartered in the US often complain bitterly that if they wish to enter the Chinese market they must enter into joint ventures with Chinese counterparts who demand transfer of intellectual property and then operate on their own.

These complaints are often accurate. Notice, however, that they typically involve cases where the company in question produces for China in China and so have little impact on US employment. In many cases a substantial number of the company's shareholders are foreign and it pays taxes to many governments. It is more than a little ironic that an administration that condemns outsourcing should make standing up for those who move production to China so central a priority.

Fourth, bilateral trade bluster is not an effective strategy for the US. While most countries feel somewhat threatened by Chinese trade and business practices, it has been the unfortunate accomplishment of US trade policy in recent months to cause most of the world to rally to China's side because of our disregard for the WTO and the global system.

### **Chinese officials seem more bemused than alarmed by what they see as a boomeranging US approach**

Not only does having many others on its side make it easier for China to resist the US, it also undercuts the effectiveness of our sanctions. China can still export to other markets and US producers who use Chinese inputs lose competitiveness when only they are forced to pay tariffs. History is clear that moments of high trade truculence like that pursued against Japan in

the early 1990s accomplished very little while imposing substantial costs.

Fifth, threats have to be credible to be effective. In recent weeks, every time the US has pushed its strategy markets have had mini-collapses, and every time it has appeared to pull back markets have rallied. How in such a world can it seem credible that the US will actually carry through on its threats? And without credibility why should one expect strong responses from China? I return from a recent meeting with senior Chinese officials with the clear sense that they are more bemused than alarmed by what they see as a boomeranging US approach.

The US can do much better for itself and for the global economy but this is the subject for a subsequent column.

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