



ECONOMIC VIEWPOINT

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Truths and Untruths About Trade: The Difference Between Trade Wars and Strategic Thinking About the Future

The recent spate of actions by the U.S. administration has served to raise the temperature around trade issues, but they have unfortunately missed the mark in many respects. Most unfortunately, the scattershot approach has conflated issues having to do with bilateral trade imbalances (largely an economic outcome and not a policy target), unfair trade practices as seen in dumping, and concerns related to state capitalism and intellectual property as practiced by China. Being tough on everyone dilutes the message and confuses allies at a time when the concerted actions are required. Moreover, this stance tends to obfuscate what are some legitimate concerns for U. S. industry going forward and adds to incoherence in the design of economic policy.

Dissecting the complaints of the administration, one has to begin with the empirically verifiable observation that the majority of job losses in the country are the result of technology advances and not unfair trade actions (see the work of David Autor and colleagues). This does not absolve public policy from addressing some labor market dislocation concerns that have undoubtedly affected inequality and have created some regionally depressed areas. (Here is where a smarter tax bill could have contained provisions that would have incentivized local community actions, short of propping up declining industries, such as coal.) Secondly, dumping, or selling products like steel and aluminum below cost, needs to be met with the imposition of countervailing duties to deal with abhorrent trade practices, selectively, and on those who are to blame. (Using this to intimidate trade partners is short-sighted; equally, however, some trade partners who have free-trade agreements with the U.S. also need to exercise greater diligence over corporate behaviors). Thirdly, bilateral trade imbalances don't matter unless they are supported by aggressive trade and exchange policies or by other means of industrial policy. (Hence, U.S. trade deficits with Germany should be of little consequence, for example.)

The recent announcement to impose tariffs on China related to their announced goal of capturing global market dominance in 10 high-tech industries involves the recognition of a legitimate economic threat if those aims are supported by levers of state capitalism, but also embodies the wrong tactic to deal with such a future threat. The *Made in China 2025 Report*, which clearly underscores Beijing's intentions, constitutes a legitimate warning signal to many countries, including South Korea, Germany, Japan and the U.S. It therefore should encourage a concerted response by the international community to actions that are a distortion of the free market system. As Dani Rodrik noted in his *Paradox of Globalization*, and implicitly restated in his *Straight Talk on Trade*, China has been given a free pass on international rules, aided and abetted by global corporations whose sights on short-term profits have blinded them to strategic realities. Countries without any vision for the future will ultimately lose out, as will those who try and block out the forces of global competition.

The U. S. has been a bastion of competition and hence a benevolent open market. China has not been, and Japan and Europe have been selectively protectionist when threatened. But the Western allies have too much in common in terms of basic economic and political values to allow themselves to be divided and conquered by the soon-to-be largest economy in the world, one that abhors democratic values and see little distinction between corporations and the state. It is important to distinguish between President Xi Jinping's famous Davos speech of 2017, in which China was positioned to be the great proponent of free trade, from actions and aims of the *Made in China 2025 Report* and the Silk Road Initiatives. More generally, China's theft of intellectual property, restrictions imposed on foreign firms, and state-led financing of high-tech acquisitions is nothing new. And the responses from both sides of the Atlantic have been way too timid, too partial and too late. That said, Western economies find themselves at a decisive moment.

Although the Trumpian call for nationalism is misguided, there is an opportunity, nevertheless, for those parties of the G-20 grouping who believe that the basic rules of the game have been breached to set aside their smaller differences and effectively coalesce as a matter of common interest. Of course, this will cause short-term losses to some; however, the alternatives are bilateral attacks on one another rather than dealing with a common threat. Weak democracies are at a distinct disadvantage when facing autocratic regimes with very clear global economic intentions. This is where the vacuums of leadership in the West are costing us very dearly. Strategic alliances among countries, coordination between business, labor and government, and a common set of goals between citizens and their governments are the only effective ways to deal with impending future challenges.

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