Make America and China poor again

The character of US-China trade has changed and both Xi and Trump overplayed their hands to freak each other out

Read this article in German.

If you think that the US-China trade dispute is going to be easily resolved, you're not paying attention. It's so much deeper than you think — and so much more dangerous.

If President Donald Trump and President Xi Jinping don't find a way to defuse it soon, we're going to get where we're going — fracturing the globalisation system that has brought the world more peace and prosperity over the last 70 years than at any other time in history. And what we'll be birthing in its place is a digital Berlin Wall and a two-internet, two-technology world: one dominated by China and the other by the United States.

This will be a much more unstable and less prosperous world. Trump and Xi should drop everything and sit down to resolve this crisis before it becomes a runaway train — fueled by populists and nationalists, and amplified by social media, in both countries.

How did we get here? Two things converged: The character of US-China trade changed — it went 'deep,' and both Xi and Trump overplayed their hands and freaked each other out.

What do I mean that trade went 'deep'? For the first three decades, US-China trade could be summarised as: America bought T-shirts, tennis shoes and toys from China, and China bought soybeans and Boeing jetliners from America. And as long as that was the case, we did not care whether the Chinese government was communist, capitalist, authoritarian, libertarian or vegetarian.

Changing US-China relations

But over the last decade, China has become a more middle-income

country and a technology powerhouse. And it unveiled a plan, called 'Made in China 2025.' This was Xi's plan to abandon selling T-shirts, tennis shoes and toys and to instead make and sell to the rest of the world the same high-technology tools that America and Europe sell — smartphones, artificial intelligence systems, 5G infrastructure, electric cars and robots.

I welcome China as a competitor in these areas. It will speed up innovation and drive down prices. But these are all what I call 'deep technologies' — they literally get embedded into your house, your infrastructure, your factory and your community. And unlike dumb toys, they are all dual use. That is, they can potentially be used by China to tap into our society for intelligence or malicious purposes. And once they are embedded, they are hard to remove.

Someone had to call that game. And that was what Trump did, and he was right to do it.

We should not exaggerate this threat — everyone spies on everyone everywhere. But our relationship with China is very different from the one we had with the Soviet Union during the Cold War. We were not economically and technologically interdependent with the Russians. We are with China. And now that China can get as deep into America as Apple is into China, the difference in our values — China is a nontransparent communist society, and ours is a transparent democratic society — starts to matter.

When you are trading deep technologies 'trust' matters like never before. We cannot sell to each other, and buy from each other, these deep technologies, at scale, without higher levels of trust and shared values. That is why Trump has banned Huawei, China's 5G manufacturer, from working in America.

A foolish way to confront China

But wait! What operating system runs on Huawei cellphones? It's Google's version of Android! If we stop Google from doing business with Huawei, Huawei could fork off and produce its own operating system, which would not have all of Google's security features. It's complicated.

Another reason we're having this trade war is that both Xi and Trump have overreached.

Beginning five or six years ago, American companies doing business in

China began to change their tune. Their old tune was that the Chinese were requiring them to transfer technology, stealing their technology and forcing them to play by different rules than Chinese companies in America did, but when the American government asked them if it should intervene with Beijing, they'd usually say: 'No, don't rock the boat. We're still making money here.' No more.

More and more American companies complained in recent years that their access to the China market was being constricted, while their Chinese competitors were gaining scale and power inside of China's protected market and then competing with these US companies globally. (See Huawei.) Under Xi's 'Made in China 2025' plan, the government would provide enormous subsidies, loans and investment funds so that Chinese companies could overtake their foreign rivals.

Someone had to call that game. And that was what Trump did, and he was right to do it.

But he did it in an incredibly foolish way!

What Trump should've done

As this column has argued, Trump should have signed the Trans-Pacific Partnership free trade agreement, which would have aligned all the major Pacific economies — except China — around US trade values, norms, interests and standards, and lowered thousands of tariffs on American products. Instead, Trump tore up the TPP.

Then Trump should have lined up all the European Union countries, which have the same trade problems with China as we do, on our side. Instead, Trump hit them with tariffs on steel and other goods, just as he did China.

What China allows us, we should allow China. And what China doesn't allow us, we should not allow China.

Then Trump should have told Xi that we and our Pacific and European partners wanted to negotiate with him 'in secret' on a new trade regime, and no one would lose face. But in that secret negotiation it would be 'the world's trade standards and values versus China's.'

Instead, Trump went it alone — and made it America versus China alone. If everything is 'America first,' why should anyone help us?

Xi's mistakes

So now we have less leverage and are involved in a tit-for-tat tariff war — with no allies — and we have made it a nationalist-pride question of who will lose face first: Xi or Trump? This makes it much harder to solve. Again, Trump's core instinct is right, but trying to solve the whole US-China trade problem, built up over decades, in one perfect deal may be too much change for the lumbering Chinese system to handle at once.

But Xi is also to blame. He has frightened his neighbors by seizing islands in the South China Sea against international law. He has frightened the West by announcing plans to dominate every new technology industry by 2025, while retaining the same trade restrictions of the last 30 years, when China sold us only T-shirts, toys and tennis shoes. His negotiators gave clear indications early on that they were ready to give up some of their unfair trade practices, but then suddenly pulled back in May.

Why? Was it because Xi got too much pushback from state-owned Chinese companies that were afraid to compete without government help? Was it because Xi believes what a senior Chinese official told me last year when I argued that China had to change on trade: 'You Americans are too late. We're too big.' Was it because Xi just found his own system too hard to change? We don't know.

Negotiating as equal partners

Is there a way out? If I were Trump, I'd postpone the latest 10 per cent tariff on USD 300bn in Chinese exports in return for China's walking back its latest blows to American agriculture, and then offer the Chinese an approach that Jim McGregor, the chairman of APCO China, suggests.

'The old trade regime was based on the idea that America was a rich country and China was a poor country and therefore China was entitled to certain advantages and tolerance of its misbehaviour,' McGregor explains. 'We should say to the Chinese: "You now are our economic equal." Give them that dignity. And tell them we want to restart these negotiations on the basis of total reciprocity. We should both have the same rules of access to each other's economies.'

If China does not want to grant equal access to its economy in some sectors, then it won't enjoy that access for its companies in America, and vice versa. 'But going forward, as much as possible, the goal should be equal access — negotiated between two equal powers,' McGregor added. What China allows us, we should allow China. And what China doesn't allow us, we should not allow China. And all deviations from that

standard can be negotiated.

If somebody has a better idea, put it out there, because if both sides don't find a better way, the world as we've known it is going to change. You may not have loved what we had, but you really won't like what we'll get.

(c) New York Times



Thomas L. Friedman
New York City

Thomas L. Friedman became the New York Times's foreign affairs Op-Ed columnist in 1995. He joined the paper in 1981, after which he served as the Beirut bureau chief in 1982, Jerusalem bureau chief in 1984, and then in Washington as the diplomatic correspondent in 1989, and later the White House correspondent and economic correspondent.