Maine Voices: Investment, not tariffs, the way to compete with China

Instead of slowing China's economy, we should do more to meet the challenge with innovation.

BY **JOSEPH W. MCDONNELL** SPECIAL TO THE PRESS HERALD AUGUST 5, 2019

President Trump’s goal of a revised trade relationship with China has enjoyed bipartisan support but, after more than a year of tariffs on Chinese goods, the policy has proved costly for consumers, businesses and the world economy without delivering results.

The administration overestimated the power of tariffs to achieve its objectives and underestimated the patience of China to take the long view, including its willingness to absorb pain in its national interest. The administration also ignored the history of Western nations bullying China into one-sided treaties.

The tariffs have contributed to the slowing of the Chinese economy, but as China shifted to a more consumer-oriented economy following the 2009 recession, its exports to the United States now represent only a small portion of its economy. China has not been cowed by U.S. demands, even after the latest threat of tariffs on an additional $300 billion of exports. The Chinese know that President Trump risks a consumer, business and stock market backlash if he actually imposes new tariffs.

China, in turn, has judiciously applied retaliatory tariffs on some U.S. products and simultaneously lowered tariffs on products coming from other countries. The strategy inflicted maximum pain on U.S. industries while minimizing the cost of tariffs to Chinese consumers. U.S. lobster exports into China, for instance, fell by 70 percent after China imposed a retaliatory 25 percent tariff, while Canada’s lobster exports to China nearly doubled as it received a tariff reduction. The U.S. allies are enjoying increased trade with China and ironically have become the winners of the trade war.

President Trump had an opportunity to declare victory when China agreed to import a trillion dollars of goods from the U.S. over the next six years and took steps to strengthen intellectual property protection. While the president has incentive to negotiate an agreement, he also may prefer to scapegoat China in a reprise of his 2016 campaign rather than defend a trade deal.

The hardliners in the administration have sought far-reaching changes including opening China’s markets, eliminating government subsidies to domestic industries, baking provisions of the trade agreement into Chinese law and keeping tariffs in place even after an agreement to assure compliance. China has thus far rebuffed these demands, which it felt challenged its autonomy and threatened its economy. These demands confirmed for the Chinese their view that the real U.S. goal is not a trade agreement but slowing China’s rise to prevent it from becoming a rival to the U.S.

China possesses a large, attractive and fast-growing market, which gives it significant leverage in a trade war. Changing China’s fundamental way of developing its country will be difficult until its industries are more mature and more cooperative pressure can be applied by a coalition of its trading partners. But the U.S. has alienated its allies and retreated from leading such a coalition.

The Chinese government has not backed down from its Belt and Road initiative to increase trade or its China 2025 initiative to support the growth of new high-tech industries. China is bringing together government funding, university researchers and industry to seek dominance in 10 promising high-tech manufacturing fields like electric vehicles, synthetic biology, robotics and artificial intelligence.

For the United States to maintain its global leadership it must do more than try to slow a rival. Where is the U.S. Belt and Road initiative or the U.S. 2025 plan?

As Jonathan Gruber and Simon Johnson point out in their book, “Jump-Starting America,” the United States achieved its technological dominance with massive government funding in basic science, which laid the foundation for future commercial products. The funding came in response to Germany in World War II and the Soviet Union in the 1960s. Gruber and Johnson argue that if the U.S. is to maintain hegemony in a global technological world, it will need to launch 21st-century Manhattan Projects and moon shots.

This is our Sputnik moment. We can pretend tariffs will change Chinese behavior and ambition or we can compete in a race to lead in the industries that will shape the 21st century. The future of the U.S. and the world is at stake.

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