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Opinion Trump is right: China's a trade cheat

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Ever since the resignation of top advisers Gary Cohn and H.R. McMaster, it does seem as if the Trump White House has gotten more chaotic, if that is possible. But amid the noise and tumult, including the alarming tweets about Amazon and Mexico, let's be honest — on one big, fundamental point, President Trump is right: China is a trade cheat.

Many of the Trump administration's economic documents have been laughably sketchy and amateurish. But the Office of the U.S. Trade Representative's report to Congress on China's compliance with global trading rules is an exception worth reading. In measured prose and great detail, it lays out the many ways that China has failed to enact promised economic reforms and backtracked on others, and uses formal and informal means to block foreign firms from competing in China's market. It points out correctly that in recent years, the Chinese government has increased its intervention in the economy, particularly taking aim at foreign companies. All of this directly contradicts Beijing's commitments when it joined the World Trade Organization in 2001.

Whether one accepts the trade representative's conclusion that "the United States erred in supporting China's entry into the WTO," it is clear that the expectation that China would continue to liberalize its markets after its entry has proved to be mistaken.

Washington approached China's entry into the world trading system no differently from that of other countries that joined in the mid-20th century. As countries were admitted, the free world (especially the United States) opened its markets to the new entrants, and those countries in turn lowered barriers to their markets. That's how it went with such nations as Japan, South Korea and Singapore. But there were two notable factors about these countries: They were relatively small compared with the size of the global economy, and they also lived under the American security umbrella. Both factors meant that Washington and the West had considerable leverage over these new entrants. Singapore had 2.2 million people and a gross domestic product of $19 billion when it joined the GATT (the precursor to the WTO), while South Korea had 30 million people and a GDP of $41 billion. Japan was larger, with 90 million people and a GDP of under $800 billion. (All GDP figures are adjusted for inflation.)

And then came China, with 1.3 billion people and a GDP of $2.4 trillion when it joined the WTO in 2001. That was almost a fifth of the U.S. economy. The Chinese seemed to recognize that once they were in the system, the size of their market would ensure that every country would vie for access, and this would give them the ability to cheat without much fear of reprisal. Moreover, Beijing was never dependent on Washington for its security. It had fought a war against American troops in the 1950s with some success and had grown into a great power in its own right.

The scale and speed of China's integration into the world trading system made it a seismic event. The distinguished economist David Autor, along with two colleagues, has published study after study on the impact of the so-called China Shock. They conclude that about a quarter of all manufacturing jobs lost in the United States between 1990 and 2007 could be explained by the deluge of Chinese imports. Nothing on this scale had happened before.

Look at the Chinese economy today. It has managed to block or curb the world's most advanced and successful technology companies, from Google to Facebook to Amazon. Foreign banks often have to operate with local partners who add zero value — essentially a tax on foreign companies. Foreign manufacturers are forced to share their technology with local partners who then systematically reverse engineer some of the same products and compete against their partners. And then there is cybertheft. The most extensive cyberwarfare waged by a foreign power against the United States is done not by Russia but by China. The targets are American companies, whose secrets and intellectual property are then shared with Chinese competitors.

China is not alone. Countries such as India and Brazil are also trade cheats. In fact, the last series of world trade talks, the Doha Round, was killed by obstructionism from Brazil and India, in tandem with China. Today the greatest threat to the open world economy comes from these large countries that have chosen to maintain mixed economies, refuse to liberalize much more and have enough power to hold firm.

The Trump administration may not have chosen the wisest course forward — focusing on steel, slapping on tariffs, alienating key allies, working outside the WTO — but its frustration is understandable. Previous administrations exerted pressure privately, worked within the system and tried to get allies on board, with limited results. Getting tough on China is a case where I am willing to give Trump's unconventional methods a try. Nothing else has worked.

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