

Opinion | OP-ED COLUMNIST

Some Things Are True Even if Trump Believes Them

Thomas L. Friedman MARCH 13, 2018

One of the hardest things to accept for all of us who want Donald Trump to be a one-term president is the fact that *some things are true even if Donald Trump believes them!* And one of those things is that we have a real trade problem with China. Imports of Chinese goods alone equal two-thirds of the global U.S. trade deficit today.

But while Trump's gut instinct is right, he's so ignorant about the facts, he's so easily swayed by the last person he talked to or by ill-considered promises to his base, he's so weirdly obsessed with protecting "manly" industries like coal, steel and aluminum that affect our allies more than China — and he's built such a chaotic policymaking process and unilaterally surrendered so much leverage to Beijing — that he can't be relied upon to navigate the China trade issue in our national interest.

For those of us who believe in free trade — *and that China and America can both thrive at the same time* — but who are convinced that China hasn't been playing fair and don't trust Trump to fix it, this is a critical problem to think through.

So, I sat down with David Autor, the M.I.T. economist who's done some of the most compelling research on the impacts of China trade. The first problem he raised has to do with the "shock" that China delivered to U.S. lower-tech manufacturers in the years right after Beijing joined the World Trade Organization in 2001, when it gained more open access to the U.S. and other world markets.

Autor and his colleagues David Dorn and Gordon Hanson found in a 2016 study that roughly 40 percent of the decline in U.S. manufacturing between 2000 and 2007 was due to a surge in imports from China primarily after it joined the W.T.O. And it led to the sudden loss of about one million factory jobs in Ohio, Michigan, Wisconsin and Pennsylvania. Trump won all of those states.

This “China shock,” said Autor, led not only to mass unemployment but also to social disintegration, less marriage, more opioid abuse and more people dropping out of the labor market and requiring government aid. “International trade creates diffuse benefits and concentrated costs,” he added. “China’s rapid rise, while enormously positive for world welfare, has created identifiable losers in trade-impacted industries and the labor markets in which they are located.”

The second problem has to do with access to China’s market for the goods U.S. companies sell. There, noted Autor, “China has not only taken our lunch, they’ve opened a restaurant that’s serving it to their citizens.”

We assumed that China would “reform and open” after it joined the W.T.O., said James McGregor, a longtime China trade expert. Instead, China “reformed and closed.” So China kept a 25 percent tariff on new cars imported from the U.S. (our tariff is 2.5 percent) and similarly steep tariffs on imported auto parts.

China grew its companies behind a wall of protection, fed them with state funds and, when they were competitive enough, unleashed them on the world, or only then opened up to U.S. competitors, but by then its own companies — as in the case of credit cards — had a vise grip on the market.

Sure, Detroit automakers now make a lot of money assembling and selling cars in China, but it’s with a new Chinese-only auto parts supply chain.

And now, as my colleague in China Keith Bradsher, also an expert on China trade, reports: “Chinese and foreign makers are about to start sending huge numbers of fully built cars to the U.S. We are about to see a big increase in the U.S. trade deficit in automotive in the next several years.”

U.S. tech firms, like Apple, that want to offer cloud services to Chinese citizens have to store the data in China on servers operated by a Chinese partner. The U.S. has no such regulation.

As Reuters noted, for companies like Apple, “if they don’t accept demands to partner with Chinese companies and store data in China, then they risk losing access to the lucrative Chinese market, despite fears about trade secret theft and the rights of Chinese customers.”

Tesla founder Elon Musk tweeted it right when he said that “no US auto company is allowed to own even 50% of their own factory in China, but there are five 100% China-owned EV auto companies in the US.” American electric vehicle (E.V.) companies operating in China are forced to have a Chinese partner and transfer technology to them.

E.V.s are one of the next great global industries, and China has plans to use its market access rules to control the whole E.V. supply chain, not to mention aerospace, quantum computing and a range of other advanced industries. Good for China. “China has made many smart, admirable investments in infrastructure and human capital,” added Autor, “but they are also playing by a set of rules that others would be naïve to ignore.”

China, knowing U.S. pressure is coming, has been looking for more U.S. goods to buy, said Bradsher, “but the U.S. is just not that competitive anymore in a lot of products other than oil, food and aircraft. And China is now in the test-flight stage for mass-producing its own jetliners as well.”

So what would a smart American president do? First, he’d sign the Trans-Pacific Partnership trade accord. TPP eliminated as many as 18,000 tariffs on U.S. exports with the most dynamic economies in the Pacific and created a 12-nation trading bloc headed by the U.S. and focused on protecting what we do best — high-value-added manufacturing and intellectual property. Alas, Trump tore it up without reading it — one of the stupidest foreign policy acts ever. *We Brexited Asia!* China was not in TPP. It was a coalition built, in part, to pressure Beijing into fairer market access, by our rules. Trump just gave it up for free.

Once a smart president restored participation in TPP, he'd start secret trade talks with the Chinese — no need for anyone to lose face — and tell Beijing: “Since you like your trade rules so much, we’re going to copy them for your companies operating in America: 25 percent tariffs on your cars, and your tech companies that open here have to joint venture and share intellectual property with a U.S. partner — and store all their data on U.S. servers.”

Having a really tough trade negotiation with China on manufacturing and high technology, but doing it in secret, makes sense to me. Starting a public trade war with our allies over aluminum and steel that raises the costs for our manufacturers, that doesn't protect our growth industries and that loses allies that we need to deal with China makes absolutely no sense.

But while all of this is necessary, it is not sufficient to maintain the U.S. public's support for free trade, which seems to be declining in both parties now. We needed to be, and still need to be, much more serious, and generous, about creating “wage insurance” and community reinvestment policies for people and places whose employers are suddenly wiped out by a trade shock. Because this one won't be the last.

At the same time, we need to be much more serious about using every tool we have — tax incentives, Pell grants, community colleges — to create the conditions for every American to be constantly upgrading skills and for every company to keep training its workers. That will matter whether the challenge is China or robots.

Too much of the economic discussion of late “has been focused on the 1 percent versus the 99 percent,” observed Autor. “It's become a kind of ‘inequality porn’ — where you get so focused on those two numbers that it becomes demobilizing. You lose sight of the fact that there is a dramatic rise in the economic return to tangibly acquiring skills — skills that are available and should be within everyone's reach.”

The lack of real meritocracy in our country today, he added, “is not about the returns to realized skills. It is about the inequality in the ability to acquire those skills. Too many people live in areas where they cannot get them. If you get educated in America today, and have a good work ethic, you are going to be rewarded. What does education do? It gives you a skill set and enables you to adapt to change better.

And cities and towns anchored by universities tend to reinvent themselves more easily; they're engines of adaptation. So higher education benefits not just college students but college places.”

In short, if you want to get rid of walls and ceilings — and I do — you have to strengthen the floors under every American.

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