



Sonny vs. Michael: An alternative approach to China

Minimizing collateral damage vs. Inflicting pain

The US needs a strategy that doesn't hurt the US more than it can bear

The US rushed to get a partial deal ([Phase One](#)) largely because US farmers were hurt by China's retaliatory tariffs. The US should find an approach that minimizes collateral damage while still pressuring China. More targeted restrictions would accomplish that.

“Everyone has a strategy until they get punched in the face.”

Who said that? Sun Tzu? Nietzsche? Actually, it was the noted philosopher Mike Tyson who coined that gem of wisdom. Iron Mike has a point. The US applied tariffs on China and waited for China to flinch. China didn't, and instead punched the American farmer in the face. The next thing you know the US strategy changed to getting a Phase One deal which, although containing some good points (like IP protection) leaves most key issues undone and seems mostly intended to minimize the short term pain from China's retaliation. Given this change of course, perhaps we should consider whether a broader change in tactics makes sense as well.



Was the progress in Iraq and Afghanistan worth the sacrifice?

As we have throughout this article series, we'll make a comparison with Iraq and Afghanistan to illustrate a point. The US got tough with Iraq and Afghanistan, but beyond the initial military success, the rest of the approach was highly flawed, particularly expecting democracy to take hold, and led to protracted conflicts and little sign of actual progress to this day. While it isn't the US's fault these countries are habitually unstable, the US didn't make much of an improvement despite enormous effort as measured by both lives and money. Was it worth it? Are the results worth the sacrifice? Most would respond in the negative. (Those who think that sacrifice was worthwhile might want to consider raising their expectations. With a bar that low almost anything will clear the hurdle.)

The US has to ensure that the sacrifice relative to China will be worthwhile

We run the same risk with China. When entering any type of conflict, it isn't weakness to recognize that the other side will punch back. One has to be prepared for that. Any sensible strategy must take that into account. One could make the point that the US has a history of underestimating how difficult it is to get an adversary to capitulate.

If tariffs could “fix” the trade deficit, that would be different. But it won't.

If the US was actually fixing an urgent problem or relieving immediate pain, that would be different. Then it would make sense to strike hard and quickly. But as we explain in [other content we've produced on trade and China](#), the US trade deficit is a result of China's low wages, not unfair trade practices (which is why tariffs on China didn't lower the US trade deficit or lead to a surge in US manufacturing).



Tariffs on Chinese exports aren't actually going to help the US economy. Better to find another way to pressure China. [Check out our site for the facts.](#)

US needs a strategy fit for China's future

As China develops, its economy is transitioning from low value products to mid and high value products and this is where China uses unfair trade practices (market restrictions for foreign companies, state subsidies for domestic champions, etc.). These sectors are the new priorities of China's economy. Our suggested approach is that the US remove the tariffs on China's current low cost products and instead place restrictions on China's new high priority sectors.

Keep in mind, even before the tariffs, China was already losing jobs in the low cost sectors where most tariffs have been applied. The US tariffs simply accelerated a trend that was already happening in China. This helps explain why it was not difficult for China to hang tough and make limited concessions to the US in the face of the tariffs.

Squeezing China over the long term is not only tough, it is smart.

Threatening the sectors that are considered future priorities in China could actually be considered "tougher" than placing tariffs on items that aren't a priority anymore. In a sense, instead of delivering an initial would-be "knockout punch" via tariffs, the targeted approach would slowly squeeze China where it hurts the most.

To put it another way, this approach basically says the following to China: If you want to sell us low cost widgets and products you assemble but can't design, that's fine. We'll take the fruits of your low cost workers and plow the savings into our own new technology. But if you want to compete with us in higher value sectors where our prowess lies, then you're going to have to play by our rules. If not, then we won't let you on our field.

That's not being weak. It's being tough, but also shrewd and fair.

If China escalates its retaliation, the US can always return to broad tariffs

Of course, the point could be made that, even if the US removes most tariffs, China might still retaliate against targeted measures aimed at high value sectors. That's true. But in many of those sectors, China already has restrictions, so they probably couldn't add anything new. China could once again target America's farmers or Boeing or another sector that has receive retaliation already. But, if we remove our broad tariffs and use only target restrictions, China would like not want to get back into a tit-for-tat tariff situation. If China did go that direction, the US could always bring back the broad tariffs.

By settling for the Phase One Deal, the Trump Administration has already signaled it is sensitive to blowback from collateral damage caused by China's retaliation.

Look for other articles in our China trade [Sonny vs. Michael](#) comparison

SONNY (Shotgun approach)		MICHAEL (Targeted approach)
Settle old scores	VS.	Protect future industries
Inflict maximum pain		Minimize collateral damage/ squeeze where it counts
Impatient to limit pain		Play the long game
Go it alone		Lead and unify