



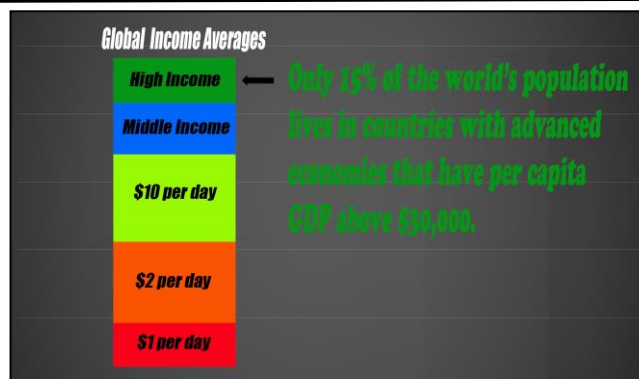
Sonny vs. Michael: An alternative approach to China

China needs the world. The US should use that.

US should unify its trade partners against China, not threaten them with tariffs

China needs global integration to grow. China wants to be a global leader. The US should use its leadership position to set the rules for China's participation. Allies would surely follow. Instead, the US is going it alone on China and picking fights with trade partners.

Only 15% of the world's population live in advanced economies. Prosperity isn't easy. Among economies that have emerged since WWII—Japan, South Korea, Taiwan, etc.—all have one critical factor in common—integration with global economy, starting with trade and eventually extending to technology, finance, and beyond. It makes sense. You sell to those with money. Plus, while domestic politics and other issues can sometimes get in the way of fair competition, foreigners are generally not tempted by those concerns. Lastly, there are many lessons to be learned and transitions to make (leadership, trust, business practices, culture, etc.). Those lessons and new behaviors are difficult to learn and acquire without dealing with those who already have them.



China not only needs the world, it wants to be a respected leader

As China was rising, Deng Xiao Ping famously said that China should “bide its time and keep a low profile.” While Deng and the next two successors stuck to that adage, China's current administration has not. The One Belt One Road initiative and the Asia Infrastructure Banks, two huge initiative undertaken by China, are perhaps the best example of China trying to play a larger role. China is trying to play a larger role in government organizations overall. If you listen to President Xi Jinping's speeches, you can hear China's aspiration to be a respected world leader.

America is underutilizing its ability to lead and unify

China needs the world and wants to be accepted which is why America's unilateral approach has the effect of underutilizing one of our most effective levers against China. The US should be actively engaging its allies in forming a united strategy on China, reasserting its role as the leader of the world, making it clear that won't change any time soon.

Due to aligned interests, America's allies would follow its lead

It's not that the US unilateral approach has driven allies away. Actually, Japan and the EU are still mostly aligned with the US on the big trade issues relative to China which shows that are interests are aligned. But the US is underutilizing this advantage. It is giving China the room to think it can win against a divided opposition. The US is making it easier for China to claim to be the better global economic partner, which helps them bolster support abroad and at home.

Underlying America's unilateral approach is a misunderstanding of trade

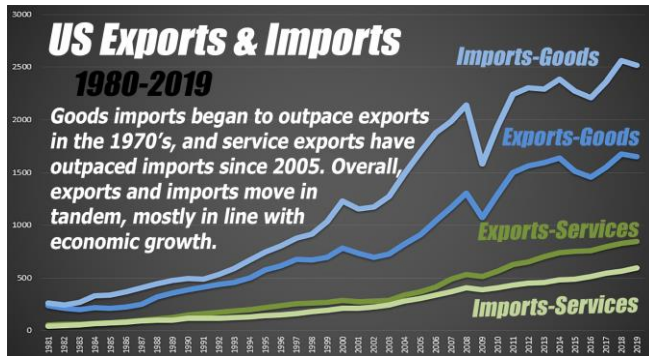
Underlying the unilateral approach is the belief that all trade deficits are bad and thus we need to pick trade fights with anyone who has a trade surplus with the US, even allies. This is wrongheaded thinking and it is a shame that it plays such a huge role in the US's overall foreign relations as well as its China strategy. [As we have explained](#) in many other articles, slide decks, and videos, 1.) the US overall trade deficit is due mostly to US spending habits; 2.) the US trade deficit with China is due to US spending habits and China being a low income country; 3.) China has not had a huge impact on US trade trends; rather it has mostly replaced other exporters; 4.) the US began losing manufacturing jobs 20 years before China joined the WTO and most of those jobs are due to technology, not trade.

Protectionists won't like it, but we need a TPP type of approach

Of course the following would be loath to devoted protectionists, but the best idea would have been for the US to stay within the TPP and be the leader who sets the standard that the Chinese have to meet. The US did not take this approach out of the incorrect belief that such agreements hurt the US. Now the best approach for the US would be to recreate the effect of the TPP—the US leading a unified coalition making demands from China.

If the protectionists are wrong about trade, the US will have paid a heavy price

The US is betting quite a lot on the notion that free trade agreements are bad and that the US will benefit mightily by forcing trade partners to reverse trade deficits. We had better be right about the benefits of that approach. Frankly, there is little to reason to think we are.



Trade with China, and in general, has not done great harm to the US economy. This assumption is hurting the US's foreign policy, especially relative to China. [Check out our site to see the facts.](#)

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

SONNY (Shotgun approach)	VS.	MICHAEL (Targeted approach)
Settle old scores		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