



Sonny vs. Michael: An alternative approach to China

China Trade: Mission **NOT** Accomplished

Slow progress and collateral damage suggests we consider a new approach.

The Trump Administration deserves credit for coalescing opinion around the need to update trade rules with China. While the goal is correct the strategy has been far from optimal. In this article series we will describe an alternative approach, more targeted than the current approach, less likely to cause collateral damage, more likely to succeed in the long term.

We all remember the mission accomplished moment when President Bush congratulated the troops. Then the US began the second phase, reconstructing Iraq, which of course is when ISIS formed and all hell broke loose. Even these many years later Iraq is hardly in a good position now. Meanwhile, in Afghanistan, 17 years after hostilities began, a simple peace agreement is nearly impossible to obtain. After all this time and effort, has any progress been made in those countries?



Less developed countries are difficult

This lack of progress reflects the greatest challenge of US foreign policy—less developed countries. From intervention in Vietnam, Iraq and Afghanistan to oil and stability in the Middle East to economic aid in places like Latin America, we never seem to really solve any problems. At best we push problems down the road, wait for another crisis to flare. Partly this is because those parts of the world are extremely challenging. Partly this is because [America doesn't really understand the challenges](#).

US needs to be more effective with China than in Iraq and Afghanistan

In our [Sonny vs. Michael series](#) on China, we take the position that the US is making similar mistakes with China, i.e., failing to understand the reality of dealing with an emerging country. The most immediate place to look for this effect is the trade war, where the mission is definitely not accomplished.

Trade War results thus far are not impressive

Thus far, three years into the Trump Administration's effort to address trade issues with China (not counting 2020 due to the impact of COVID-19), we could summarize the progress as follows:

Shifting trade around, not changing it

- As a result of tariffs implemented by both sides, although America's imports and exports relative to China fell significantly, America's overall imports and exports didn't fall much and neither did China's

Collateral Damage: US farmers get pummeled

- Some Chinese manufacturers suffered significant revenue loss. But the most concentrated impact was probably American farmers as US agricultural exports to China plunged and US farm bankruptcies went through the roof

Most major issues untouched

- The [Phase One agreement](#) is characterized by some good parts (IP protection measures), some untested provisions (the "Buy American" measure), and, most importantly, unfinished business. Most of the major issues with China, from market access to state subsidies, have yet to be addressed at all.

The China Dashboard

President Trump deserves credit for the “get tough” on China initiative

Given the above, it hardly seems outrageous to suggest that it might be time to contemplate a new approach. However, before outlining that approach, we would be remiss if we didn’t make a key point. The Trump Administration deserves credit for coalescing opinion around the idea that it is high time for some pushback against China. That is definitely the right strategy and it wasn’t recognized as such prior to Donald Trump beating the drum. Good for him. That’s a win.

In Iraq the goal was OK but the tactics failed. US can’t do the same with China.

While we agree on the general strategy, we think the tactical approach needs serious adjustment. As alluded to above, it could be compared to Iraq and Afghanistan. Entering into the conflict in the first place was not necessarily the main problem. The bigger error was the tactical approach of expecting “democracy” to produce stability, which it never does on its own. That’s why things went seriously wrong. Likewise, it makes sense to confront China, but success depends on effective tactics.

Trump Approach: Broad, unilateral tariffs (the shotgun approach)

The approach to date has been for the US to apply tariffs broadly to as many Chinese products as is deemed necessary in order to create enough economic pain to induce China to change its practices and to do so unilaterally, without coordination with other trade partners.

Alternative Approach: Targeted, Multilateral restrictions

Another approach would be to apply targeted restrictions against industries where China’s unfair trade practices are prevalent and which represent China’s current and future economic priorities. For example,

- for any industry in which China does not permit US companies market access, US market access will be restricted for Chinese companies.
- Chinese state supported companies will not be able to make acquisitions in the US
- Chinese state supported companies in key industries will have restricted access to US markets
- The US will establish its own intellectual property protection review panel, quicker and more efficient than the courts, which will have the ability to restrict sales of products where IP violations have been found

As other advanced economies (Europe, Japan, Australia, NZ, etc.) share the same concerns about China, the US, while not necessarily waiting for the agreement of its trade allies, will endeavor to gain consensus with the allies in taking a unified approach to China.

A good example of the Sonny vs. Michael comparison

These two approaches fits nicely into the overall theme for our [“Sonny vs. Michael: An Alternative Approach to China”](#) series. Our basic point is that tough is not enough. The US needs to be tough and smart. In other articles in this series we will compare the two approaches along the following lines, explaining how the Targeted approach is tough enough while likely being much more effective in the long run.

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