



Sonny vs. Michael: An alternative approach to China

Play the long game: Strategy should match likely timeframe

A solution won't come quickly. US needs a strategy that wins over the long term

Most major issues remain unresolved three years after the trade conflict began. These things take time and a quick solution is highly unlikely. Targeting China's future priority sectors should minimize retribution and allow the US to achieve its goals over the long run.

There's an old story that, at the start of the negotiations in Paris to end the Vietnam War, the American side rented hotel suites for two weeks while the Vietnamese side rented a house for multiple years. Even if this story is apocryphal, it would be accurate to say that the US spent more time in Vietnam than it expected. The same could be said of Iraq and Afghanistan. Likely most Americans would agree that the US has a history of underestimating the time it takes to settle foreign entanglements. We think that might be a problem relative to China as well.



In this series of articles we are arguing that the US needs to reconsider its approach to the trade conflict with China. Another of our reasons is that the US's current strategy does not seem to be properly aligned with the likely timeline required to obtain real change from China.

Phase One deal was because the US needed immediate relief for farmers

The best indication of this is the completion of the [Phase One Deal](#) between the US and China. When the Trump administration began to execute its China trade strategy, there was no mention of a "phased" approach. The Phase One deal itself, while containing some positive provisions for the US (like IP protection), left most major issues untouched. The main purpose of the deal seemed to be to provide relief to US farmers who had been pummeled by China's retaliatory tariffs (which had resulted in a spike in US farm bankruptcies). When you fail to resolve any major issue after three years and have to make an interim agreement to alleviate collateral damage, it's fair to say you might have a problem with your timeline. Specifically, the US needs an approach it can endure for whatever time is required for a resolution.

No need for speed. Tariffs on low cost items aren't helping the US.

President Trump has said that China is "raping" the US on trade. Implicit in this comment is the notion that the US has been treated so badly that it is imperative that steps be taken as quickly as possible to alleviate pain. [In other articles in this series and other material](#), we have explained that this is incorrect. China's low cost labor and its relatively low income explain its trade surplus with the US, not unfair trade practices. Not that China doesn't utilize unfair trade practices. It does. But those practices mostly relate to higher value added goods and services which are not a major part of China's exports but are future priorities for the country. This point explains why tariffs against China, while decreasing US imports from China, haven't led to a decrease in the US's overall trade deficit.

Like America, China has domestic political challenges that must be overcome

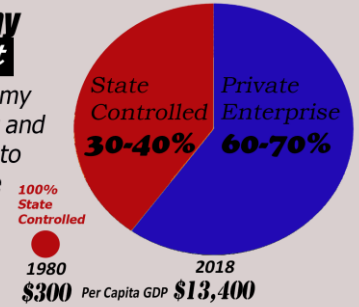
Having eliminated the reason for a rapid response, the US should consider what a reasonable timeframe might be to make progress with China, keeping in mind past experience when the US has underestimated the time required.

The China Dashboard

Lost at times amidst the China debate is the fact that China has actually made great progress [liberalizing its economy](#), going from 100% state-controlled in 1980 to roughly 60% private enterprise currently. But reform began to slow 10-15 years ago, which is the major reason why China has slower growth, higher debt, and major trade conflicts. The remaining barriers that the US is asking China to remove, relative to market access and state subsidies in key industries, are politically difficult for a country like China. They aren't decisions that are often made quickly, which is why China has been dragging its feet for last decade or so.

Chinese Economy % Free Market

In 1980 China's economy was 100% communist and state controlled. Due to economic reforms, the private sector now accounts for the majority of the economy.



China has made good progress reforming its economy. But it has a long way to go and anti-reformers are blocking the path.

Not saying US shouldn't pressure China

Of course, we aren't suggesting that the US bow to political reality in China. To the contrary, it is incumbent on the US to try to apply pressure to change that political reality. But the US should do so in a way that the US itself can endure, avoiding a course of action that might cause too much pain for the US over too long a period of time.

Better to apply pressure over the long term than to fail in the short term

Our approach of targeting key industries while eliminating broad tariffs minimizes the likelihood of collateral damage while slowly squeezing China over the long run. Basically, it amounts to playing the long game, recognizing that trade issues almost always take a long time to resolve so it is best to have a strategy that, over the long run, can be endured by the US and still put pressure on China.

If the US had made more progress by now, time wouldn't matter. But it does.

If tariffs on China had reduced the US trade deficit or if more progress had been made after three years of discussion or if a Phase One deal were not necessary to provide relief to farmers, then perhaps the US strategy would not have to be recalibrated to fit a more realistic time frame. But given the circumstances, maybe the US should consider whether it should adopt a long term strategy in order to address a long term problem.

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