



*Sonny vs. Michael: An alternative approach to China*

## Better to focus on the future, not settle old scores

**Targeting key sectors, not “fixing” the deficit, should be the priority with China**

*The US-China trade deficit is a result of China’s competitiveness relative to low value items that aren’t made in the US anyway. But their unfair practices relate to mid to high value items that are China’s future priority. The US should focus on the future, not the past.*

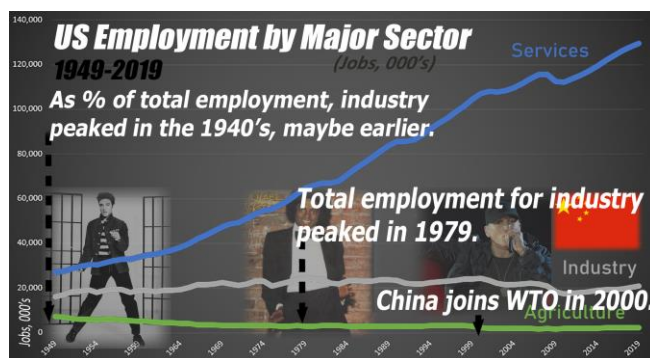
**President Trump has said that China is “raping” the US on trade and that the**

US-China trade deficit is the greatest theft in history. The Trump Administration’s entire strategy on trade, which includes challenging not only China but Germany, Japan, and many other US trade partners, is predicated on the notion that a trade deficit, almost by definition, is harmful to a country and proof of unfair trade.

### President Trump is wrong about the US trade deficit

The President’s tactics on trade are suboptimal largely because he is wrong on this crucial point. We have produced a [bevy of information explaining why this is the case](#), highlights of which are as follows:

- **China hasn’t dominated US trade:** From 1992-2018, US imports increased by 5X (from \$500 Billion to \$2.5 Trillion). China accounted for only 22% of this amount, hardly a dominant position.
- **China hasn’t changed the relative US trade deficit:** From 200-2018, as China’s portion of US imports rose from 8% to 22%, the US trade deficit as a percent of GDP actually fell slightly, from 1.9% to 1.6%, indicating China didn’t materially impact the US trade position
- **Low income countries spend less so tend to have trade surpluses:** US per capita GDP is at least 4X higher than China and the Chinese savings rate is 5-7X higher than the US. This is why it is typical for less developed countries to import less and thus have a trade surplus.
- **Factory job loss started way before China:** US manufacturing jobs, on a relative basis, peaked before 1950. On an absolute basis, they peaked in 1980, 20 years before China joined the WTO and its exports soared.
- **For most industries, tech not trade causes job loss:** From steel to oil, chemicals, paper, printing and food products, there are plenty of industries which have had significant job losses that are not related to trade at all. It is clear technology causes far more job losses than trade.



Manufacturing jobs were in decline well before China’s exports soared. The data doesn’t support many claims made by trade and China hawks.

[Check out our site to see the facts.](#)

### US tariffs on China have not changed the overall US trade deficit

Lastly, helping to confirm the above is the fact that, since the imposition of tariffs against China, US imports from China have fallen dramatically, but overall US imports have not fallen at all (factoring out the impact of COVID-19 on the economy) as the US has simply changed import sources. If China’s trade was truly victimizing the US, we would expect results other than that.

# The China Dashboard

## No need to alleviate immediate pain as there is no immediate pain

If President Trump were right then his approach of broad tariffs against China would make sense since it would be necessary to hit China hard to try to alleviate the extreme pain America is suffering. But since President Trump is wrong about trade deficits it makes sense to ask whether another tactical approach to China would be better.

## China does engage in unfair practices, but you have to know where to look

First, a critical point must be made. Just because unfair trade practices aren't the cause of the US trade deficit (overall or with China), doesn't mean China doesn't engage in unfair trade practices. In fact, it does. But you have to know where to look and that requires a basic understanding of development economics.

As the graphic illustrates, emerging markets like China begin by making low cost, low value-added, labor intensive items for which low wages constitute an advantage. As exports and GDP grows, so do incomes and technical competence, so emerging markets move on to mid to high value-added goods and services. China is making this transition currently. The key to understanding trade with China is that China's trade surplus is mostly due to the low value items but it's unfair trade practices relate to the mid to high value added items. This is why it is correct to say that the trade deficit is (mostly) not the result of unfair trade practices but in fact China does engage in such practices.



## Better to target China's high priority areas.

Our revised approach to trade with China would focus on these mid to high value areas, targeting sectors in which China is still restricting foreign entry, subsidizing domestic champions, or in any other way unfairly hindering US companies. The US could start by honing in on the 25 sectors China has identified itself as economic priorities in its Made in China campaign.

## Sonny settles old scores but Michael focuses on the future

Getting back to our Sonny vs. Michael analogy, the Trump approach is akin to settling old scores, going to war ("going to the mattresses") over petty slights of the past that don't really matter. The targeted approach is more like Michael working with Hyman Roth while overlooking the slight to Frankie Five Angels in Brooklyn, looking to protect the future while preventing slights of the past from becoming major conflicts. This isn't the only reason the Target approach is better than tariffs, but it's a good reason (one of many).

## 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