The New York Times | https://www.nytimes.com/2024/10/03/opinion/trump-trade-war-china.html

GUEST ESSAY

Trump Lost the Trade War to China. America Needs a New Strategy.

Oct. 3, 2024

By Bob Davis

Mr. Davis is an economics reporter and a co-author of "Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War."

When former President Donald Trump began his trade war with China in 2018, imposing tariffs as high as 25 percent on about three-quarters of all Chinese imports, he had three goals: Slash the trade deficit, which is his measure of economic success, bring back jobs to the United States and pressure China to stop ripping off U.S. intellectual property.

On all those scores, the trade war flopped. Although the trade deficit with China initially shrank, it grew during the pandemic, as did the total trade deficit. A pickup in manufacturing jobs stalled in 2019 as higher tariffs kicked in. And the U.S. Trade Representative complained this year that Chinese firms continue to steal U.S. trade secrets "with impunity."

The best Mr. Trump could say is that China suffered more than the United States because it's more dependent on trade. U.S. imports of Chinese semiconductors, furniture and other goods facing tariffs fell, and industrial areas in China making tariffed goods showed signs of a slowdown.

The trade war's only real winners were countries where Chinese firms shifted production to avoid U.S. levies, particularly Vietnam. Between 2018 and 2022, Chinese investment in Vietnam roughly doubled and its exports to Vietnam rose 75 percent, to $147 billion, according to the consulting firm Kearney. During that same period U.S. imports from Vietnam nearly tripled, to $136 billion, as Chinese firms used the country as a toll-free highway to the American market. This shift, which the economists Davin Chor and Laura Alfaro call the "great reallocation," still leaves the United States dependent on China.

If the next administration wants to buck this losing streak, it will have to rethink how it designs tariffs. And to deliver the greatest benefit to the U.S. economy it should move beyond the single-minded framework, embraced by both parties, of blocking investment from China and instead encourage the country's technology leaders to set up operations in the United States, the way Japanese carmakers built American factories in the 1980s.

Sign up for the Opinion Today newsletter Get expert analysis of the news and a guide to the big ideas shaping the world every weekday morning. Get it sent to your inbox.

While Mr. Trump has said he wants to boost foreign investment, he has been silent on a role for China. Instead he is doubling down on his old strategy, promising tariffs of 60 percent or more on China and 10 percent or 20 percent on the rest of U.S. trading partners. Those numbers may change — Mr. Trump regularly tosses out different figures — but his goal is clear: "a ring around the collar" of the U.S. economy.

His new trade war plan has the same flaw as the old one: Tariffs are generally assessed on imports from countries where the goods are last assembled, no matter their origin, so goods that ship from Chinese-owned factories in, say, Vietnam are considered Vietnamese exports. And because tariffs on China would be set far higher than for any other country, Chinese firms would have a huge incentive to try this two-corner shot into the U.S. market.

Vietnam would stand to win again from a second Trump trade war since it has invested heavily to support an export economy. But Mexico would probably be No. 1. It has a free-trade pact with the United States, meaning that it could become a zero-tariff port into the country.

Chinese firms are clearly getting ready. While China is a relatively small investor in Mexico, the official data doesn't capture the increased activity. This year, the Chinese electric vehicle maker BYD sent a delegation to the Mexican State of Jalisco, where it's considering building a factory, and met with Chinese suppliers there. Lingong Machinery Group is building a construction equipment plant in Nuevo Leon, reportedly part of a $5 billion investment.

Trump officials point to his talk of slapping tariffs of 100 percent or more on Chinese cars built in Mexico and shipped to the United States as an example of how he would crack down on China's tariff evasion. But this tactic isn't scalable: Tracking the pathway of the more than $400 billion in goods that China ships to the United States would be a nightmare.

If America's goal is to block Chinese goods — no matter where they are made — it needs a more sophisticated approach. The Biden administration says it's taking one by applying new sky-high tariffs to only a handful of high-tech goods, such as semiconductors, batteries and electric vehicles, a concept the Harris campaign has endorsed. Even so, Democrats are closer to the Trump approach than they admit because they haven't scrapped any of his China tariffs.

A more effective way of reducing dependence on China would be to focus tariffs on high-tech goods, and to waive them only if a very high percentage of such a good is made with non-Chinese parts, regardless of where it was assembled. That's the tack the Trump administration took when it renegotiated NAFTA in 2018: To qualify for zero-tariff entry now, 75 percent of a car's value must be made in North America.

The Biden administration is examining different techniques, such as barring Chinese vehicles, especially E.V.s if the data they produce could be transmitted to Beijing, which the administration frames as a national security risk.

America's larger goal, though, should be to outcompete Chinese goods, not merely to block them, which has a big downside: It reduces competition for U.S. firms and their incentive to innovate. That hurts U.S. consumers, who get lousier products, and makes U.S. exports less competitive.

In industries where Chinese firms are technological leaders, such as E.V.s and batteries, the United States shouldn't ban China but copy it. China advanced economically by wooing investment from leading U.S. and European firms, learning their technology and production techniques and incorporating them into Chinese-made products.

The United States could do the same. On a case-by-case basis it should encourage Chinese firms to invest in high-tech fields in the United States, with the stipulation that they bring advanced technology, hire American engineers and scientists to use that technology, and train American workers to produce the high-tech goods.

That's essentially the strategy the United States is using now to persuade South Korean and Taiwanese semiconductor makers to build factories here, offering subsidies and tax breaks to foreign firms that will produce advanced chips domestically and train American workers.

Of course, there is a difference between a firm from South Korea, a military ally, and one from China, America's biggest rival. Washington would have to carefully weigh the costs (increased dependence) and benefits (access to leading-edge technology) before approving Chinese investment, which has plunged in recent years as Beijing and Washington sought to decouple their economies.

But the United States makes a mistake when it aims mainly to bar Chinese investment and imports. As the first U.S.-China trade war shows, the strategy doesn't work, except to enrich third countries. And it deprives the United States of Chinese expertise, often developed with a big helping hand from U.S. firms, that could now give America's economy a boost.

Bob Davis is an economics reporter and a co-author of "Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War." He was part of a team that won the Pulitzer Prize for international reporting on the Asian and Russian financial crisis in 1999.

The Times is committed to publishing a diversity of letters to the editor. We'd like to hear what you think about this or any of our articles. Here are some tips. And here's our email: letters@nytimes.com.

Follow the New York Times Opinion section on Facebook, Instagram, TikTok, WhatsApp, X and Threads.