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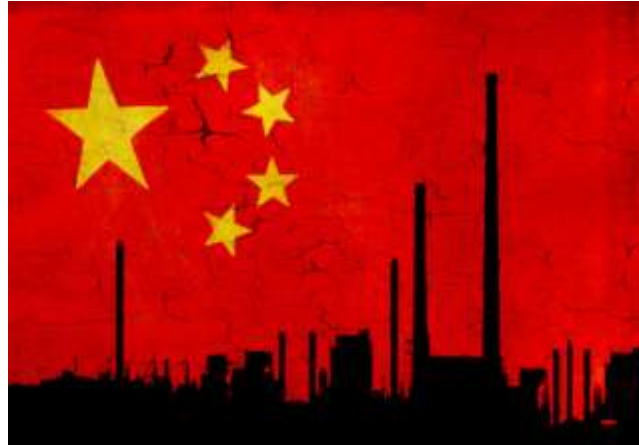
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## Why America Can't Afford to Get Into a Trade War with China

Patrick MendisJoey Wang  
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Throughout the 2016 presidential election, Donald Trump blasted China for its protectionist trade policies, currency manipulation and a number of other accusations. Indeed, these accusations were not limited to Trump as China bashing is simply standard fare for anyone seeking elected office and on the campaign trail. Much of Trump's campaign was, however, met with derision. As the election process unfolded, the derision soon turned to snickers. As the election continued, the snickers turned downright somber while Trump sailed past his

Republican opponents Jeb Bush, Ted Cruz, Marco Rubio and others who had been deemed more likely to become the GOP nominee.

Among the intelligentsia, the mood has turned to alarm as now President Trump has set out to do exactly as he promised during his “America First” campaign. To show his sincerity to the campaign promise of bringing jobs back to the United States, he kicked off his first day in the Oval Office by issuing an Executive Order that cancelled American participation in the Trans-Pacific Partnership. The TPP was President Obama’s signature trade deal. It created a free-trade zone with eleven other nations for approximately 40 percent of the world’s economy. Trump also threatened to impose a 45 percent tariff on Chinese goods if China does not “behave” accordingly.

Since Trump’s selection of Iowa governor Terry Branstad as his ambassador to China, the president may be backing away from some of his campaign promises. Still, the fact that Trump was elected based upon the use of these rhetorical devices suggests that there is a profound misunderstanding, if not complete lack of understanding, of the symbiotic relationship between the United States and China. It is also worth noting that, had his opponent Hillary Clinton won the election, she too would have won based upon some of the same anti-China trade rhetoric.

### **Is ignorance dangerous?**

In his book, *Anti-intellectualism in American Life* (1963), Richard Hofstadter once wrote that after the 1952 election, the intellectual was now “dismissed as an ‘egghead,’ an oddity, [who] would be governed by a party which had little use for or understanding of him, and would be made the scapegoat for everything from the income tax to the attack on Pearl Harbor.” Adding to that of Hofstadter, Arthur Schlesinger had remarked that anti-intellectualism (and anti-rationalism) “has long been the anti-Semitism of the businessman.” It appears that America has set a new low bar, with an electorate that is smug in its ignorance. Yet, it prides itself on knowing who best should guide the myriad U.S. policies—from trade, investment and currency to geopolitical strategy—to achieve the national interest.

Americans always admire those that are decisive and true to their word. But those qualities are only admirable when decisions and actions are based upon a clear and unvarnished understanding of the problem. That either candidate could win an election based on attacking a trade policy that has benefitted so many people on both sides of the Pacific for so long is at best disingenuous, and at worst, exploitation. Voters need to be more informed about the policies and agendas of their candidates and politicians need to stop pandering to a political base that subscribes to a zero-sum, take no prisoners theology. Both need to develop an understanding of the historical context between the two countries.

Philosopher Søren Kierkegaard remarked that “Life can only be understood backwards . . . but it must be lived forwards.” In developing sensible and pragmatic Sino-U.S. policies for the future, likely the most consequential relationship in the twenty-first century, voters and policymakers must have at least an understanding and appreciation of the past.

### **Partners in peace**

The generally understood starting point for America's trade relations with China begins in 1784 when the privateer *Empress of China* set sail from New York Harbor for Canton (Guangzhou). In fact, trade relations had already begun during the seventeenth century. However, while *Chinoiserie* did exist in America at that time, direct trade with China was limited by the English Parliament's Navigation Act of 1651. It was not until after the 1783 Treaty of Paris that the Patriot war financier Robert Morris decided to establish trade between the new Republic of the United States and China "to encourage others in the adventurous pursuit of commerce." Free from the mercantilist policies of England, Morris sent the *Empress of China* on its maiden voyage to China. In doing so, a tectonic shift was created for the Republic as it severed its commercial obeisance to the United Kingdom and embarked on a new relationship with the Middle Kingdom.

For the Founding Fathers, commercial intercourse with China gained more than simply teas, silks, porcelains and other *chinoiserie* brought back by the *Empress of China*. They sought to integrate many aspects of the Chinese cultural philosophies into American life. In his *Pennsylvania Gazette* (1737), Benjamin Franklin wrote that the "Chinese are regarded as an ancient and highly civilized nation." Franklin wanted the United States to be governed by a meritocracy based on learned men with moral virtues, according to "what Confucius proposed to the princes" and "according to this [Confucian] model" for a "happy and flourishing empire" in America.

Then Secretary of the Continental Congress, Charles Thomson, observed that "this country may be improved beyond" what "might have been expected" if we could be "so fortunate as to introduce the industry of the Chinese, their arts of living and improvements in husbandry, as well as their native plants, America might in time become as populous as China, which is allowed to contain more inhabitants than any other country, of the same extent, in the world."

Thomas Jefferson had also studied Chinese gardening and incorporated a number of architectural designs into his home at Monticello. For the worldly Jefferson, it was natural for him to combine the best of both occidental and oriental cultures to help create a new American civilization.

Americans who deride all things made in China today as low-quality imitations could be forgiven for thinking that this is a uniquely Chinese invention. In fact, this was the brainchild of two American brothers who sought to make an entry into the American middle-class market. Nathaniel and Frederick Carne had specialized in importing luxury goods from France intended for wealthy Americans. However, the emergence of a middle class in the 1830s led the brothers to recognize a possible third tranche of consumers who, while not wealthy, still had some disposable income. In contemporary argot: affordable luxury.

The Carne brothers sent some of their luxury goods from France off to Chinese craftsmen where the goods could be made at a much lower cost. Once products were satisfactorily replicated, they were imported to America in quantities, and the knockoff was born. Nonetheless, acquiring and collecting all things Chinese was a genuine testament to the admiration colonial America had for China or anything Chinese.

But building the new Republic required far more than tea and porcelain. America and China both proved to be instrumental in their support of each other during this period of development in their history. Thousands of Chinese labored—not only under institutional violence but perilous conditions—in building the Transcontinental Railroad from the Atlantic to the Pacific Coast. While slavery had been abolished by 1865, the conditions under which they labored were all but indentured servitude given the existing Jim Crow laws and rampant racism. Without the contribution of Chinese labor, American progress as a nation would have been delayed by years. Indeed, this delay would have been exacerbated had it not been for the large capital investment from Howqua, then the richest and most powerful of the Cohong merchants in China, and who had invested heavily in American railroads.

Similarly, it was with American (and Japanese) funding in 1922 that allowed the construction of railroads that linked Peking with Baotou, a remote region to the west on the northern bend of the Yellow River in China.

### **Partners in war**

Like the largely unknown role the Chinese have played in supporting America's development, the Chinese partnership in supporting western conflicts has also been largely swept under the rug in favor of a more convenient and homogenous western narrative.

In World War I, thousands of Chinese gave their lives in Flanders Fields on behalf of the allies, thousands more are buried in Liverpool and the Commonwealth war cemeteries. One hundred and forty thousand in all labored on the Western Front digging ditches, working in armaments factories, docks and railroad yards, or worked as interpreters. The Chinese Expeditionary Labor Corps to the World War I historiography was so inconvenient that they have been called “the forgotten of the forgotten” over the European landscape.

At the War's end, thousands marched in the streets of Beijing on Armistice Day, according to Erez Manela. The signs read “Make the World Safe for Democracy” while chanting “Long Live President Wilson!” With America's prestige at vertiginous heights, it was an opportunity for America to make China in its image. As the Chinese marched, Wilson's ambassador to China, Paul Reinsch, wrote a hauntingly prescient letter, according to Manela. In the letter, Reinsch observed that Wilson's principles had resonated deeply with the Chinese people and they desired to “follow along the path of American action and aspirations.” Therefore, the Chinese were putting their hopes on the United States to overcome the humiliations of the past and gain sovereign equality in the world. But Reinsch warned Wilson that, should their hopes not be realized, the consequences would be costly, stating: “If China should be disappointed in her confidence at the present time, the consequences of such disillusionment on her moral and political development would be disastrous, and we instead of looking across the Pacific towards a Chinese Nation sympathetic to our ideals would be confronted with a vast materialistic military organization under ruthless control.”

China headed to Versailles in Paris with great expectations, hoping, among other things, to overturn the unequal treaties that had been imposed on China since the end of the Opium War in 1842, as well as the return of Shandong province, which had been a territory ceded to Germany

in 1897, but seized by Japan during the war. This was not to be, as Shandong ended up being ceded back to Japan by the Big Three—the United States, Britain and France.

For China, Versailles was an epic betrayal that would result in the May Fourth Movement of 1919, the undercurrents of which remain as a historical context of Sino-American relations to this day.

During World War II, China was the first to face Japanese aggression, fighting alongside American and British forces in Burma (Myanmar) trying to secure the Stilwell Road—a major logistical route to Kunming in Yunnan province. China managed to pin down around six hundred thousand Japanese troops and keep them from being deployed to other areas in Asia, even while it was desperately short of armaments. Its reward in the aftermath was a permanent seat with a veto power at the United Nations Security Council; hardly just compensation for the tens of millions of lives lost and displaced through Japanese atrocities that included biological experimentation.

It is remarkable, to say the least, that this level of Chinese support came during a period of unequal treaties, economic concessions and other surrenders of sovereignty that gave Britain and the United States special positions and their citizens special privileges. It was a century of national humiliation, to which the Yuan Ming Yuan imperial “Garden of Gardens” (near the Peking and Tsinghua Universities in Beijing) continues to bear witness, according to the BBC News Magazine.

In his book, *Political Order in Changing Societies*, Samuel Huntington observed that “the stimulus to nationalist mobilization may be furnished either by a foreign political, economic and military presence in a country before the collapse of the old order or by foreign political and military intervention after that collapse.” In China’s case, the stimulus was furnished by all three. It’s little wonder then that each foreign intervention during this period added renewed pressure to revolutionary forces and broaden their mass appeal.

### **Mao’s admiration for George Washington**

One person who bore witness to the calamities of the two world wars, and whose political philosophy was deeply shaped by them, was Chairman Mao Zedong. Mao had admired George Washington, and he had read of Benjamin Franklin and Theodore Roosevelt. While Mao had studied other western heroes, it was Washington that captured Mao’s imagination. He believed that China needed a model like Washington, and that if Washington could persevere and ultimately defeat the British to build up America, so too could China build itself up to become a powerful nation.

Like other Chinese, he had found inspiration in Wilson and placed his hopes in the United States. But those hopes were never to be realized. Not only were China’s hopes dashed after Versailles, but the Americans then threw their support behind General Chiang Kai-Shek and the nationalists after World War II. These life-changing events would compel Mao to declare that “We made mistakes during the previous period . . . it was the first time for us to deal with the U.S.

imperialists. We didn't have much experience. As a result, we were taken in. With this experience, we won't be cheated again.”

While normalization of U.S.-China relations finally began under Mao's helm, he was not to see the ultimate fruits of his labor, dying in September 1976—two years and four months before the Joint Communiqué establishing diplomatic relations between the United States and China.

### **China opens up and Trump closes down**

When President Deng Xiaoping assumed the mantle of leadership after Chairman Mao, Deng recognized that China could not prosper under a continuous state of revolution. While the old veteran of the Long March by no means embraced western democratic ideals, Deng nonetheless set China on a course for economic reform. With trade liberalization and market opening up to the United States in 1979, China gained most-favored-nation treatment in 1980 and joined the World Trade Organization in 2001.

Since then, bilateral trade relations have expanded sharply. China has increased from a \$2 billion a year export market to a more than \$20 billion a year market for American farmers and ranchers in 2016. The Office of the U.S. Trade Representative estimated that, in 2015, China was America's largest goods trading partner, and the country was America's third largest goods export market. In the same year, Iowa alone, for example, exported to China agricultural products worth \$1.4 billion. In recent years, Chinese state-owned enterprises (SOEs) have invested in Kansas, Ohio, Virginia and other states. In 2016, the renminbi joined the U.S. dollar, the euro, Japanese yen and pound sterling as one of the International Monetary Fund's five reserve currencies—a significant economic achievement for China.

The suggestion that China is stealing American jobs makes for a specious argument. But it is not entirely true. Surely, manufacturing jobs have been on the decline, but that has been due more to enhanced productivity through automation than trade. That being said, bashing China resonates more with the jingoism of the manufacturing sector, and is a far more effective tool for tugging at the heartstrings of voters. There is also no argument that American jobs have been lost due to trade. However, it is worth remembering that with rising costs and stiffer foreign competition (including competition from the United States) in China's export producing zones, a number of companies have had to relocate out of China to lower-cost manufacturing locations like Bangladesh, Ethiopia, Indonesia, the Philippines and Vietnam. This trend is likely to continue to exert pressure on China as it moves up the value and supply chains just as it has experienced the American manufacturing sector.

President Trump's assertion that China is guilty of currency manipulation is certainly true, but not in the way he thinks. Indeed, for the past two and a half years, the People's Bank of China has intervened in currency markets, but the intervention was to prevent the renminbi from falling too sharply against the U.S. dollar. If China were to allow the markets to determine the value of the renminbi, it would depreciate even faster and greatly enhance China's trade competitiveness with the United States. China has also eliminated subsidies for its exporters in seven diverse sectors that range from textiles to agricultural products.

## **Where to go from here?**

Chairman Mao's premier Zhou Enlai once suggested to Henry Kissinger, former secretary of state, that even with its history of two hundred years, China was younger than the United States, if one dated it from the founding of the People's Republic of China. This is a poignant observation because while China's cultural history is thousands of years old, its economic development, in history, has been very slow, due in no small part to invasions and internecine conflicts. Lucian Pye once suggested that China was a civilization pretending to be a nation-state.

The amount of centralized control in China's economy reflects a Hamiltonian-centric, mercantilist approach similar to America's period of development after the Revolutionary War. Indeed, this belief was likely further solidified during the 2008 financial crisis. Former U.S. Treasury Secretary Henry "Hank" Paulson was privately told by Chinese Vice Premier Wang Qishan during the Bilateral Strategic and Economic Dialogue: "You were my teacher, but now here I am in my teacher's domain, and look at your system, Hank. We aren't sure we should be learning from you anymore."

Far from a China apologist, it is simply an observation that, in China's economic development, the sometimes chaotic approach in the American capitalist system can seem disquieting to the Chinese, who prefer more Confucian order and stability. While China's trade policies are at times manipulative, according to the Congressional Research Service, the country does still have obligations to the World Trade Organization such as reducing tariffs, subsidies and ending discriminatory trade policies. And it is worth recalling that it is this centralized control that has been largely responsible for China's growth and effective economic self-guidance.

China has unified and arisen, and will never again surrender its sovereignty to a foreign power trying to impose its will. If there is any doubt as to the impact that the century of humiliation has had on China, the celebration of the ninety-fifth anniversary of the May Fourth Movement in 2014 should put that to rest.

Speaking at Peking University, President Xi Jinping emphasized that "young people's values determine the values of the future society, and more efforts should be made to ensure young people's cultivation of sound [Confucian] value systems, which are still in the formation stage." Drawing a direct connection between the May Fourth Movement and China's current position on the world's stage, Xi Jinping said that it is "just like buttoning a coat. If the first button is done wrong, all others will be buttoned wrong."

## **Is Trump leading from behind?**

Governor Branstad's nomination as American envoy indicates that Trump must surely recognize the importance of trade with China as it is one of the top export markets for Iowa in both goods and services. While Peter Navarro, who Trump has tapped to lead the newly created White House National Trade Council, has been known to be an economic nationalist, he has also been more conciliatory, indicating that "the last thing a Trump administration plans is a trade war." He

also noted that “the issue simply is getting a decent trade deal with each of the major trading partners.”

But, all the polemics misses the point that if policymakers really want to bring jobs back to America, they need to prepare its citizens for the jobs of the future by providing retraining and better education from childhood onward. Pronouncements about “trade wars” and bringing manufacturing jobs back to America by the millions is simply pandering. Manufacturing jobs, for the most part, are not coming back to the American heartland. In fact, those jobs have left China and are not coming back to China either. Waging a trade war would simply be a race to the bottom. The United States may have options for punishing China, but Beijing has plenty of options to punish Washington as well. As Xi Jinping recently said at the World Economic forum in Davos, “No one will emerge as a winner in a trade war.”

The recent U.S. exit from the TPP has already handed China a significant advantage. Those nations left out in the cold by TPP, which did not include China, are now looking to join the Regional Comprehensive Economic Partnership (RCEP), which does not include the United States. The RCEP, which includes the ten member states of the Association of Southeast Asian Nations (ASEAN)—plus Australia, China, India, South Korea and New Zealand—makes up almost half of the world’s population and nearly 30 percent of global GDP. It has also set America’s high ideals adrift as RCEP “lacks the protections for labor, human rights and the environment” that had been specified in the TPP.

If President Trump wants to “Make America Great Again,” he should focus on more current and relevant global trends and Sino-American issues, such as intellectual property rights, market access, cybersecurity, SOEs and the ongoing Bilateral Investment Treaty negotiation. Railing against the loss of manufacturing jobs and TPP protections is to dwell on something that has already been overcome by events.

In the meantime, Americans should pay less attention to the partisan headlines and pay more attention to the historical trend lines in Sino-American trade and commercial intercourse that have raised millions from abject poverty on both sides of the Pacific Ocean—and the world.