Connecticut Debate Association
November 11, 2017
Crosby High School and Westhill High School

Resolved: The US should prioritize protecting the domestic economy in future trade negotiations.

Are U.S., China Headed for ‘Hot War’ on Trade?

The Wall Street Journal, By ANDREW BROWNE, March 7, 2017

Antitrade forces in White House, Chinese mercantilism set stage for titanic tug-of-war

SHANGHAI—China’s stunning advance as an industrial power has no historical precedent: Its share of global manufacturing rocketed from 3% in 1990 to around one-quarter today. The disruptive shock helped deliver Donald Trump to the Oval Office on a barrage of protectionism rhetoric.

The question now is whether it will splinter the U.S.-led global trading system.

Mr. Trump’s threatened tariffs have failed to materialize. Nor has he declared China a currency manipulator, another campaign pledge.

Still, global markets may be underestimating both the antitrade forces gathering in the White House, and the hardening of Chinese mercantilism.

On Sunday, Chinese Premier Li Keqiang warned in his annual “work report” to the National People’s Congress that “the deglobalization trend and protectionism are growing.” Yet, he offered little new thinking from Beijing on a way forward.

Market reforms are on hold ahead of a key Communist party gathering at the end of the year that President Xi Jinping hopes will crown his power. To serve that purpose, state aggrandizement remains the overarching goal of economic policy-making.

That means growth is China’s priority. Beijing is doubling down on a zero-sum strategy that has flooded global markets with surplus steel, aluminum, cargo ships, paper and glass.

The stage is set for a titanic tug of war over trade that clouds the future of the World Trade Organization itself.

The trade hawks in Mr. Trump’s administration are seized with a common conviction: that China’s 2001 entry into the global trading body was a catastrophe for the U.S. economy.

In their telling of the story, China cheated its way into U.S. markets under WTO cover, laying waste to American jobs and prosperity as its bilateral trade surplus exploded by 300%.

Peter Navarro, the White House industry guru and a former economics professor, has called this “one of the great obscenities in global economic history.” In a speech on Monday he raised the specter of a “cold war” and even a “hot war” against an unnamed power buying up “our companies, our technologies, our farmland and our food supply chain, and ultimately controlling much of our defense-industrial base.”

Mr. Navarro and Commerce Secretary Wilbur Ross claimed in a paper last year that eliminating the $500 billion U.S. trade deficit—the bulk of it with China—would add to growth, create millions of jobs and generate trillions of dollars in revenue to pay for tax cuts. A dollar saved on trade is a dollar gained in GDP, they argued.

Many orthodox economists deride this theory. Larry Summers, the former U.S. Treasury secretary, called it “voodoo economics.” There is no consensus on whether trade deficits are good or bad (they tend to swell when the U.S. economy is doing well, and shrink when it’s ailing). And the theory glosses over other challenges to U.S. factory jobs, like the self-inflicted financial crisis of 2008 and the march of automation.

Besides, U.S. manufacturing output is at, or close to, record levels.

Yet China has brought on this fight. Its wholesale theft of intellectual property, requirements forcing foreign investors to disgorge their technology, and a digital “Great Firewall” that blocks most of the world’s top internet sites, have provided ample ammunition to White House trade warriors. The latest survey by the American Chamber of Commerce in China showed that more than 80% of its members felt less welcome in the country.

Meanwhile, armed with a half-trillion-dollar war chest, China is shopping for U.S. and European tech companies to build advanced manufacturing capabilities that it will foster in its own protected markets—and then unleash on open economies in the West.

China is rightly worried about a U.S. response. “I’m seriously preparing for a trade war,” a former commerce minister, Chen Deming, told reporters in Beijing this week, according to a Bloomberg report.

Last week, the Trump administration opened hostilities in a policy paper that threatened to bypass the WTO in handling disputes, a dramatic departure that, if implemented, would risk triggering a global free-for-all and undermining much of the organization’s raison d’être.

Trade has traditionally supplied the ballast to U.S.-China ties, now at their lowest point in decades. Without a comprehensive settlement, the relationship could run aground. That would strike at both Mr. Xi’s “China Dream” of national rejuvenation and Mr. Trump’s campaign to “Make America Great Again.” Nobody wins in a trade war.

To the dismay of Asian governments fearful of conflict between the world’s two largest economies, Mr. Trump has ditched the most promising framework for a grand bargain—the Trans-Pacific Partnership, which covers some of the touchiest areas of U.S.-China trade such as the role of state enterprises, intellectual property and labor standards.

China was never included in that arrangement, although it didn’t rule out membership. Beijing is now rushing to fill the vacuum by promoting its own, lower-quality trade agreement with its neighbors.

Charlene Barshefsky, the former U.S. trade representative who negotiated China’s entry into the WTO, argued at recent public forum that TPP “should be fixed, not jettisoned.”

She added: “Miscalculation is too costly for both sides—and the world.”

What Trump Gets Right on Trade

The New York Times, By ALAN TONELSON, MARCH 2, 2017

WASHINGTON — Whatever confusion people might have about President Trump’s agenda, his position on trade and manufacturing is crystal clear. “I believe strongly in free trade, but it also has to be fair trade,” he said in his address to Congress Tuesday night. He called for corporate tax reform and export incentives, and he lashed out at Nafta and China for draining America’s manufacturing base.

Mr. Trump’s stance on trade is one of his most popular positions, but many economists and policy makers are skeptical: They say that rapid automation will negate any gains made in bringing manufacturing jobs back, while the tariffs and other policies he has suggested using will ignite disastrous trade wars.

The doubters are wrong on both points. American manufacturing’s most advanced sectors remain big employers, and much of their payroll shrinkage stems from predatory competition from high- and low-wage countries, as well as offshoring by American multinationals. And the trade-war alarmists overlook the matchless, yet overwhelmingly neglected, leverage America holds over the global economy.

Although cheap, labor-intensive goods often come to mind when Americans think of job-displacing imports, the more capital- and technology-intensive segments of manufacturing have hardly been immune. Sectors like motor vehicles and parts, pharmaceuticals, telecommunications equipment, nonelectrical machinery (like machine tools, farm machinery and power-generating turbines) and industrial chemicals add up to nearly half of manufacturing’s enormous, chronic annual trade deficits nowadays.

Such sectors still employ millions of Americans. For example, more than 947,900 jobs are currently found in automotive production (including 145,700 in the highest-value segments, like engines and powertrains and their parts), nearly 360,000 in semiconductor and related manufacturing, more than one million in machinery and more than 200,000 in pharmaceuticals. And a recent Commerce Department report indicates that in 2014 their trade shortfalls alone — leaving aside any impact from labor-saving technologies — cost more than 200,000 jobs, both in the industries themselves and throughout their American supply and logistics chains.

Since then, moreover, trade deficits in advanced manufacturing have worsened, and the stagnation of productivity growth suggests that the robots have been replacing fewer workers. So trade-related job loss in these sectors surely has grown — and smart, pro-domestic manufacturing policies can bring them back.

As for trade-war alarmists, they apparently assume that the same countries that rely so heavily on exports to the United States for their growth, economic development and employment will unleash attacks on their biggest and best customer.

The United States is not only the world’s biggest single national economy, but for all its recent sluggishness, it has also generally been the fastest-growing major economy, and it is the most open to imports. That’s why it’s the single largest export market for a fifth of the world’s countries. That’s why it has remained the world’s largest consumer of foreign goods, despite slashing its previously huge purchases of foreign oil. That’s largely why each percentage point of new American growth lifts global growth by much more than similar expansion in China, and nearly as much as growth in the euro area — which unlike the United States is relatively poor in natural resources and needs to buy many more commodities from overseas. That's also why nearly all leading countries and groupings — including the eurozone — have long-run trade surpluses with the United States.

The United States plays an even more central role in countries that have come into Mr. Trump's trade crosshairs. Slow-growing Mexico, for example, would be performing much more sluggishly if it were not able to export the equivalent of 28 percent of its annual economic output to the United States. Its auto shipments to America alone are its biggest generator of foreign exchange reserves.

True, China's economy is stronger and gradually becoming less export-dependent than Mexico's, but its growth slowdown has been crucially contained by the $600 billion (by its own dubious count) global trade surplus it amassed last year — nearly half of which is run with the United States. Indeed, China's sales to America constituted 4.4 percent of its annual economic output in 2015.

Further, the numbers don't tell the whole story. After all, governments in institutionally weak countries like Mexico, or undemocratic countries like China, tend to stay in power by lifting national living standards. Losing unfettered access to the American market could undermine the leaderships in both countries.

It's unclear which trade measures Mr. Trump will use to draw factories and their workers stateside. Nor has he announced domestic policies to aid these efforts. But the official manufacturing job and trade statistics make entirely obvious that the rewards to the American economy will be substantial. And as Mr. Trump's speech on Tuesday made clear, America has a president who understands its ample power to reap them.

Alan Tonelson, the founder of RealityChek, a blog on economic and national security policy, and the author of "The Race to the Bottom," advised both the Trump and Sanders campaigns on trade policy.

What Trump and Sanders Get Wrong About Free Trade

The New York Times, By MIRIAM SAPIRO, MARCH 16, 2016

HARDLY a Democratic or Republican debate passes without claims that international trade is responsible for the country's growing economic insecurity and inequality.

But the bombast from the right and the left is as misdirected as it is angry. Viewing trade as toxic for American workers obscures reality, ignores the problems we face and undermines steps needed to strengthen the economy.

Here are some facts lost in the heat of primary season. Excluding oil, the United States actually has a trade surplus in manufactured goods (you read that right) with the 20 countries with which it has trade agreements (although that does not include China). Over all, the United States enjoys an annual trade surplus in services, driven by financial services and intellectual-property licensing, of more than $200 billion.

Trade agreements support these trends by prying open foreign markets for American goods and services. Without greater access, the United States will have a difficult time creating more jobs: Nearly all of the world's population lives outside its borders.

The Department of Commerce estimates that every increase of $1 billion in exports sustains nearly 6,000 jobs, and that export-related jobs pay on average 18 percent more than jobs focused on the domestic market. We'd be foolish to start a trade war by imposing tariffs on products from China, Mexico or other countries, which would increase prices and invite retaliation that would hurt American exports.

To understand how dismantling trade barriers helps the country, we also need to take a broader view of the American economy, and not focus solely on disruptions and lost jobs in particular sectors. And among major advanced countries, our growth rate is nothing to be ashamed of, especially given substantial economic headwinds from abroad.

Exports remain a steadily growing component of United States gross domestic product, which is even more significant in light of declining growth in global trade. Job growth in 2014-15 was as strong as it was in the 1990s, hourly wages have grown at their fastest pace since the Great Recession and unemployment today is less than 5 percent. China's growth rate remains higher but is widely believed to be overstated and has fallen to a 25-year low.

Concerns about job losses are serious, but it is misguided to blame trade agreements, or trade generally. For example, while the North American Free Trade Agreement is routinely criticized as sending American jobs abroad, data from the Peterson Institute shows that in the seven years after the pact's passage, nearly 17 million jobs were added in this country and unemployment fell to 4.0 percent, from 6.9 percent. Advances in technology and globalization affect productivity and employment in different ways in different sectors, regardless of trade agreements.

To better address job loss, the United States needs strong, enforceable trade agreements that can lift wages and ensure respect for fundamental labor laws by its trading partners. We can and should do more to crack down on countries that manipulate their currency, and we should stop shying away from making currency discipline an enforceable part of our agreements.

Another essential step is to strengthen our domestic safety net so that if a factory closes, for any reason, its workers can immediately retrain and not worry whether their families will be taken care of during the transition to a new job. The federal Trade Adjustment Assistance Program, though underfinanced, has helped over two million workers since 1974. But nearly a quarter of them have had difficulty finding new employment, and they would benefit from a greater focus on enhancing their skills, as is done in other countries.

Rather than blaming international trade for economic woes, we need to have an honest conversation about what the United States must do to strengthen its economy. More than 20 percent of American children today live in poverty. Our educational system, once the envy of the world, now ranks in the bottom half of much of the developed world. The tax system rewards companies that exploit loopholes, infrastructure is crumbling and training programs lack the kind of apprenticeship and credentialing opportunities that Germany and other major economies offer.

The American people deserve clarity about the true impact of trade. It was a more open trade policy that helped the United States recover from the Great Depression. In 1934, Congress gave President Franklin D. Roosevelt the authority to negotiate trade agreements and unwind the devastating Smoot-Hawley tariffs; within five years he had signed 19 such agreements.

Expanded trade can also accelerate our recovery from the Great Recession. Of course it is easier to score points by denouncing trade than to tackle the tough issues, but such demagogy ignores the roots of economic insecurity and inequality. It also obscures the reality that trade, done right, offers a chance to strengthen America's competitiveness.

Miriam Sapiro, a principal at Summit Strategies International, was a deputy United States trade representative from 2009 to 2014.

The Era of Free Trade Might Be Over. That's a Good Thing.

The New York Times, By JARED BERNSTEIN, MARCH 14, 2016

FOR decades, free-trade agreements, called F.T.A.s, have been one of the most solid planks in the platform of economic elites and establishment politicians. True, the occasional political candidate like Ross Perot argued against one deal or another and even President Obama ran on "renegotiating" the North American Free Trade Agreement, but once elected, presidents of both parties sought and ratified trade deals with a wide variety of countries.

Those days may well be over. What changed?

For one thing, the economic populism of the presidential campaign has forced the recognition that expanded trade is a double-edged sword. The defense of globalization rests on viewing Americans primarily as consumers, not workers, based on the assumption that we care more about low prices than about low wages.

It is unquestionable that expanded trade has vastly increased the supply of goods and services and has thus contributed to lower costs for consumers. But basic trade theory connects prices to wages, and in the United States, globalization is widely accepted as a contributor to both wage stagnation and the growth in inequality. For example, the real wage for blue-collar manufacturing workers in the United States is essentially unchanged over the past 35 years, while productivity in the sector is up more than 200 percent.

We should no longer buy the statistically strained arguments about F.T.A.s delivering growth and jobs. The evidence just isn't there, a fact not lost on those campaigning for president.

Second, various countries with whom we compete have historically managed their currencies to gain a price advantage (i.e., they keep their currency low to boost their exports to us and suppress ours to them), and this has long been a source of our persistently large trade deficits.

Third, the F.T.A. process has been captured by investors and corporate interests. According to The Washington Post, 85 percent of the members of the outside committees advising the administration on the proposed Trans-Pacific Partnership were from private businesses and trade associations (the rest were from labor unions, NGOs, academics and other levels of government).

No wonder the selling of trade deals has become such a challenge. If we're really at the end of the F.T.A. era, what does that mean for trade, policy and economics over the next few years?

First and foremost, don't conflate trade with trade agreements. They're not at all synonymous. Over the last 50 years, our trade volume as a share of gross domestic product has climbed steadily, tripling to 30 percent from 10 percent, regardless of whether we were signing F.T.A.s.

F.T.A.s, on the other hand, are just the rules of the road: technical arrangements between trading partners. As Hillary Clinton noted in a recent speech at a Michigan factory, "Even if the United States never signs another trade deal, globalization isn't going away." Success in trade has much more to do with comparative advantage (who's particularly productive making what goods), exchange rates and the quality of supply chains than with trade agreements. We won't trade less because we're not signing the next F.T.A.

That said, the absence of new F.T.A.s is an opportunity to refocus our trade policy on workers and more balanced trade. Besides the loss of public trust, cramped F.T.A. negotiations have blocked us from taking necessary steps against currency manipulation and have diminished our focus on policies that could rebuild the manufacturing sector.

At this point in the argument, chin-stroking pundits will tell you the "hard truth" that those manufacturing jobs we lost are not coming back. They're right, but that's beside the point. The question is not whether we can go backward, but could there be a more vibrant manufacturing future here? Can we, for example, build supply chains such that we don't just design the new goods the world demands, but instead of outsourcing their production, produce them here?

The manufacturing expert Mark Muro writes about many industries that tap our comparative advantage integrating software and hardware, including electric cars, robotics and the "Internet of things" (the interaction of smart machines and networks), alongside technologically upgraded old industries like autos and industrial machinery.

So we should welcome the end of the era of F.T.A.s, which had long devolved into handshakes between corporate and investor interests on both sides of the border, allowing little voice for working people. With such noise behind us, we might be ready to foster the next generation of advanced production and help our exporters fight back against currency manipulators. That would be more productive than fighting tooth and nail over the next big trade deal.

Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, was the economic adviser to Vice President Joseph R. Biden Jr. from 2009 to 2011.

Why Trade Critics Are Getting Traction

The Wall Street Journal, By WILLIAM A. GALSTON, March 29, 2016

The benefits of open markets are more uneven than economic theories had assumed.

The debate over trade is one of the loudest in a high-decibel campaign. And like the rest of the nominating contest, it is being conducted in a largely fact-free zone. Developments over the past quarter-century warrant a thorough rethinking of U.S. trade policy, but the rhetoric of the past year will make it harder to get where we need to go.

Let's start with what for many Democrats is their party's original sin—the North American Free Trade Agreement (Nafta), which was adopted by Congress in the first year of Bill Clinton's administration and went into effect in January 1994. A recent review by the nonpartisan Congressional Research Service concluded that Nafta "did not cause the huge job losses feared by the critics or the large economic gains predicted by supporters."

Many Americans believe that Nafta is responsible for the decline of the U.S. manufacturing economy. The evidence suggests otherwise. In the seven years from the beginning of 1994 to December 2000, U.S. manufacturing employment increased to 17.2 million from 16.8 million, and the average hourly earnings of production and nonsupervisory workers in manufacturing rose modestly. Although it is possible to claim that jobs and wages would have risen even more without Nafta, this argument seems too speculative to justify the torrent of abuse heaped on the agreement and the president who saw it through to final adoption.

The picture has darkened during the past 15 years, however. In the seven years from George W. Bush's inauguration to the beginning of the Great Recession in December 2007, manufacturing lost 3.5 million jobs. It then declined by another 2.2 million before finally bottoming out at 11.5 million in April 2010. A modest recovery in manufacturing over the past six years has boosted the job total to 12.3 million, still almost five million jobs (29%) below its level in December 2000.

What explains the severe losses of the past 15 years? Standard accounts focus on rising productivity in manufacturing. That is part of the story, as it has been for decades. But recently, labor economists David Autor, David Dorn and Gordon Hanson have found, in a paper for the National Bureau of Economic Research, that import penetration from China has been responsible for up to 20% of U.S. job losses in manufacturing since the end of the 20th century. In the process, they say, China's advance has "toppled much of the received empirical wisdom about the impact of trade on labor markets."

The parts of the country dependent on industries most exposed to significant import penetration from China have been hit the hardest. For example, much of the state of Tennessee has experienced above-average job losses because of its heavy dependence on furniture manufacturing. Adjustment to trade shocks doesn't happen smoothly, in part because workers are reluctant to leave familiar occupations and locations.

There is no evidence that increased competition from China has produced offsetting employment increases in other industries whose products are traded internationally. Hard-hit locales experience a double blow, with substantial increases in government transfer payments.

Overall, Messrs. Autor, Dorn and Hanson conclude, local labor-market adjustment to trade is "stunningly slow," with labor-force participation remaining depressed and unemployment elevated for a decade or more after the initial import shock. Workers displaced by trade experience lower wages and increased job instability—not only initially, but long-term. Their adjustment to changed circumstances is nothing like the frictionless process posited in neoclassical economic models.

For centuries, economists have taught that trade produces aggregate gains, even if those gains are poorly distributed across individuals and economic classes. But building on emerging research, Messrs. Autor, Dorn and Hanson suggest that when adjustment to import shocks is slow and costly, net welfare gains may be negligible. This challenges the conventional optimism about trade.

Yes, U.S. trade with China has yielded lower prices for a wide range of consumer goods. But unless we do much more than we ever have to cushion the fall and ease the transition to new opportunities or decent retirements, displaced workers are bound to regard the surge of Chinese imports as a massive redistribution from their modest incomes to the professional classes and the wealthy.

As China becomes a middle-income country and its real wages rise rapidly, the severe and prolonged disruption that Chinese exports have created may be nearing its end. China's massive eruption into the global market may turn out to be a once-in-a-century event.

Still, these events have left disturbing questions in their wake. Were too many economists too wedded to their theories? Were too many public officials excessively responsive to the trade winners in their electorates and insufficiently attentive to the trade losers?

Whatever else may come from the 2016 election, one thing is clear: The voices of those left behind can no longer be ignored. The task of responsible politicians is to meet their pain with policies that can really help.

How to Take On China Without Starting a Trade War

The Wall Street Journal, By James Bacchus, Aug. 16, 2017

On intellectual property, Washington has a strong case against Beijing at the World Trade Organization.

President Trump ordered an investigation Monday into China's alleged theft of intellectual property that could lead to retaliatory tariffs under the 1974 Trade Act. Before taking unilateral action in violation of international law, the Trump administration should bring cases against China at the World Trade Organization. It stands a good chance of winning precedent-setting judgments, which the WTO would enforce through economic sanctions.

Intellectual property accounts for nearly 40% of the U.S. economy, and the U.S. government has a duty to protect American rights holders abroad. The annual cost to U.S. companies of pirated software, counterfeit goods, and the theft of trade secrets is as much as $600 billion. Most of these losses occur in China.

After 16 years in the WTO, China still falls far short of fulfilling its obligations to protect intellectual property rights. About 70% of the software in use in China, for example, is pirated.

Beijing's mercantilist industrial policy, the Made in China 2025 program, aspires to make China a global leader in 10 strategic industries, including medical devices, artificial intelligence, driverless cars, and robotics. It requires that the domestic content of manufactured products be increased to 70%, state subsidies be granted, and companies in these targeted industries be protected from foreign competition.

U.S. and other foreign companies report being pressured by the Chinese government and by Chinese companies to turn over their patent rights, trade secrets and other intellectual property. Many major U.S. firms have long regarded this behind-the-scenes intimidation as simply a cost of doing business in China. Now that it could place them at a competitive disadvantage globally, they are turning to the U.S. government for help.

Most WTO rules impose negative obligations: Don't discriminate. Don't apply tariffs higher than you promised. But the rules on intellectual property are affirmative obligations: Do respect intellectual property rights. Do enforce them. Yet this aspect of the WTO intellectual property rules is largely unexplored in dispute settlement.

WTO members are required by these rules to "ensure" that enforcement procedures are "available" that will "permit effective action against any act of infringement." Moreover, these procedures "shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse." The WTO Appellate Body, the final court of appeal for trade, has said that "making something available means making it 'obtainable,' putting it 'within one's reach' and 'at one's disposal' in a way that has sufficient form or efficacy."

Is this happening in China? Some maintain that the WTO rules on enforcement only require good laws on the books and good procedures in principle, which the Chinese increasingly have.

The better argument is that enforcement means enforcement and that these positive WTO obligations aren't being met if laws exist but intellectual property rights are widely infringed. The U.S. could bring a systemic challenge to China's intellectual property regime on the basis that the government is not fulfilling its affirmative enforcement obligations.

Trade secrets could be one part of a broad WTO challenge. The WTO agreement includes a rule requiring the protection of trade secrets, but it has yet to be asserted in a dispute settlement.

Another WTO rule requires that members administer all their laws, regulations and other actions in an "impartial" and "reasonable" manner. Is coercing foreigners out of their rights acting impartially and reasonably? If it can be shown using solid evidence that the Chinese government is engaging in such coercion, this could be another strong legal claim.

Some in the Trump administration evidently assume that protectionist Chinese actions aren't covered by WTO rules, but a lot of them are. In its membership agreement with the WTO, for example, China promised to ensure that approvals for foreign investments wouldn't be "conditioned on: whether competing domestic suppliers of such products exist; or performance requirements of any kind, such as local content, offsets, the transfer of technology, export performance or the conduct of research and development in China." That sounds like the makings of another strong legal claim.

If the U.S. insists on acting unilaterally under the Trade Act, the Chinese are correct that this would break WTO rules. It would lead to retaliation by China, emulation by others and a cycle of tit-for-tat trade actions that would shrink trade and the world economy.

Before the U.S. damages the trading system by acting unilaterally, White House lawyers should read the fine print of the rule book. The Trump administration can better protect Americans' intellectual property by working within the WTO.

Mr. Bacchus is a former chief judge of the World Trade Organization's Appellate Body. He served as a Democratic U.S. representative from Florida, 1991-95.

China's Intellectual Property Theft Must Stop

The New York Times, By DENNIS C. BLAIR and KEITH ALEXANDER, AUG. 15, 2017

Workers at a factory in Huaibei, Anhui province, using microscopes to assemble micro motors for phones. Credit Wan Sc/European Pressphoto Agency

President Trump on Monday instructed the office of the United States Trade Representative to consider an investigation into China's sustained and widespread attacks on America's intellectual property. This investigation will provide the evidence for holding China accountable for a decades-long assault on the intellectual property of the United States and its allies.

For too long, the United States has treated China as a developing nation to be coaxed and lectured, while tolerating its bad behavior as merely growing pains. There has been an expectation that as China's economy matures, it will of its own accord adopt international standards in commerce, including protection for intellectual property. There has also been a tendency to excuse mercantilist behavior, including industrial espionage, as a passing phase, and to justify inaction as necessary to secure Chinese cooperation on other, supposedly more important, issues.

Chinese companies, with the encouragement of official Chinese policy and often the active participation of government personnel, have been pillaging the intellectual property of American companies. All together, intellectual-property theft costs America up to $600 billion a year, the greatest transfer of wealth in history. China accounts for most of that loss.

Intellectual-property theft covers a wide spectrum: counterfeiting American fashion designs, pirating movies and video games, patent infringement and stealing proprietary technology and software. This assault saps economic growth, costs Americans jobs, weakens our military capability and undercuts a key American competitive advantage — innovation.

Chinese companies have stolen trade secrets from virtually every sector of the American economy: automobiles, auto tires, aviation, chemicals, consumer electronics, electronic trading, industrial software, biotech and pharmaceuticals. Last year U.S. Steel accused Chinese hackers of stealing trade secrets related to the production of lightweight steel, then turning them over to Chinese steel makers.

Perhaps most concerning, China has targeted the American defense industrial base. Chinese spies have gone after private defense contractors and subcontractors, national laboratories, public research universities, think tanks and the American government itself. Chinese agents have gone after the United States' most significant weapons, such as the F-35 Lightning, the Aegis Combat System and the Patriot missile system; illegally exported unmanned underwater vehicles and thermal-imaging cameras; and stolen documents related to the B-52 bomber, the Delta IV rocket, the F-15 fighter and even the Space Shuttle.

President Trump's action on Monday acknowledges the broad scope of the challenge. Central to Chinese cybersecurity law is the "secure and controllable" standard, which, in the name of protecting software and data, forces companies operating in China to disclose critical intellectual property to the government and requires that they store data locally. Even before this Chinese legislation, some three-quarters of Chinese imported software was pirated. Now, despite the law, American companies may be even more vulnerable.

For decades, successive American administrations have concluded that some level of exposure to China's depredations against our intellectual property is simply the cost of doing business with the world's now second-largest economy. This is not acceptable. Although China is an important trading partner with the United States, it is imperative to establish a fair and level trading environment.

Driving down intellectual-property theft by China and other countries is vital for America's economic well-being and national security. We urge American companies, as well as our allies abroad, who share these interests, to work with the administration through this process.

There is intellectual-property protection on the books in China, and some American companies have been successful bringing cases in Chinese courts. The time may come when China applies the same efforts to protecting intellectual property that it now does to stealing it. However, for now, the United States and other developed countries must look to their own laws and actions to protect their companies from loss and ruin.

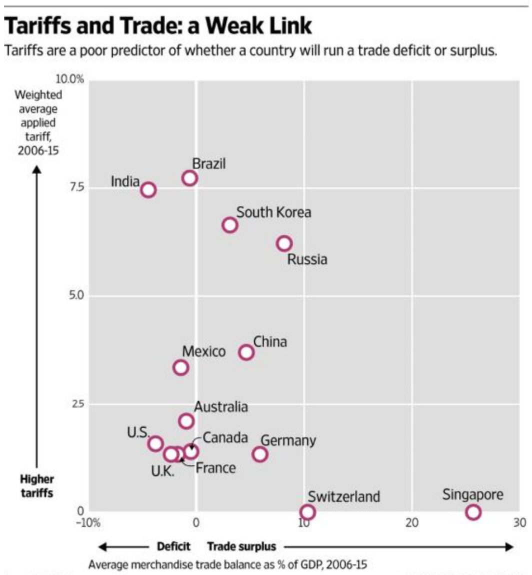
President Trump's action on Monday is a major step in the right direction. If the investigation proves extensive Chinese government support for intellectual-property theft, it could trigger retaliatory action by the American government, based on the Economic Espionage Act, Section 5 of the Federal Trade Commission Act and the National Defense Authorization Act.

The government should lead in this effort, but it can't go it alone. A broad, sustained campaign bringing together the government, the private sector and our allies is the only way to halt this hemorrhaging of America's economic life blood.

Dennis C. Blair is a former director of national intelligence and a former commander in chief of the United States Pacific Command. Keith Alexander is a former commander of the United States Cyber Command and a former director of the National Security Agency.

Deficits Are a Flawed Guide to Unfair Trade

By GREG IP, The Wall Street Journal, March 15, 2017



Global saving, consumption and investment, not tariff barriers, govern imbalances

President Donald Trump seems to be spoiling for a fight with some of America's biggest trade partners. The problem is how he judges victory. "I'm trying to find a country where we actually have a surplus of trade as opposed to a deficit," Mr. Trump groused last month.

If bilateral deficits are the marker he's using to make America great, Mr. Trump has set his team up to fail. It's a deeply flawed gauge of trade behavior that could lead the U.S. to pick the wrong fights.

The U.S. has a trade deficit because it consumes more than it produces. Lacking sufficient savings, the U.S. sells assets such as stocks, bonds or other IOUs to foreigners to finance consumption and capital spending. A trade deficit always equals an inflow of foreign capital.

This deficit arithmetic isn't controversial; the dispute is over what causes it. Mr. Trump and Peter Navarro, director of his National Trade Council, blame unfair trade, arguing that other countries are cheating in the global trade arena. His critics say it's the appeal of the U.S. as a destination for investment.

Both arguments are an oversimplification. Trade deficits and capital inflows result from a combination of U.S. and foreign saving, consumption, and investment behavior, much of it benign but some of it not.

Mr. Trump's argument implies there should be some correlation between protectionist barriers and the trade balance. There isn't. Brazil and India are highly protectionist yet run persistent trade deficits because they save less than they invest. Conversely, Germany, and Switzerland have low tariffs yet run persistent trade surpluses because of their high saving relative to investment.

In an upcoming book, Joseph Gagnon and Fred Bergsten of the Peterson Institute for International Economics studied 125 countries and found that between 2003 and 2014, those with higher tariffs generally had bigger current account deficits or smaller surpluses than others. (The current account includes goods and services trade and income such as interest and dividends.) They couldn't find any statistically meaningful link between the two. Some trade barriers don't appear as tariffs, such as local content requirements, but that doesn't appear to alter the overall relationship.

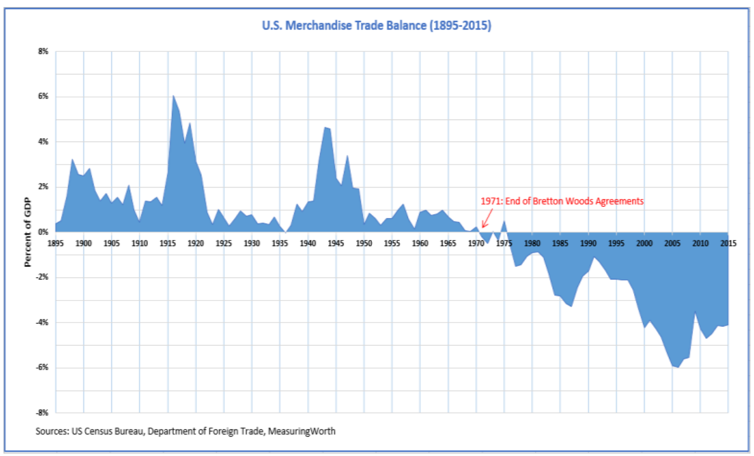
The reason is that exchange rates adjust. If the U.S. imposed an across-the-board tariff, it would tend to reduce demand for foreign currency, strengthening the dollar, making imports cheaper and exports more expensive and canceling out the effects of the tariff. If it imposed tariffs on just one country, that country's currency would fall. Its exports would be diverted to other countries, as would U.S. imports. The U.S. bilateral deficit might change; the overall deficit much less, if at all.

But this isn't to say that unfair trade practices don't matter. When another country subsidizes its exports and restricts imports, it benefits American consumers at the expense of domestic factory workers. U.S. imports of foreign goods or acquisitions of U.S. firms by foreign companies can cost the U.S. know-how, intellectual property and future high-wage jobs. A study by David Autor of the Massachusetts Institute of Technology and four others found that U.S. firms hit hardest by competition with Chinese imports reduce not just employment but also patents and research and development.

These are all legitimate concerns for policy makers; yet fixing them won't necessarily correct the overall deficit. In the 1980s voluntary export restraints on Japan helped create a thriving auto transplant sector, but the U.S. trade deficit still grew.

Persistent trade deficits usually reflect structural factors. The U.S. is virtually forced to run a trade deficit because safe-haven demand for its securities boosts both the dollar and capital inflows. Japan's high-saving workers fueled its trade surplus; as those workers have retired and spent their savings, the surplus has disappeared.

Robert Lighthizer, Mr. Trump's pick for U.S. trade representative, signaled in congressional testimony this week that he appreciates some of these nuances. "When I look at deficits, I try to ask myself, 'What does it tell me about the rules of trade?'" he told Congress. "Our objective is not just to get the trade deficit down. Our objective is to get more efficiency in the market, is to get rid of trade barriers everywhere."



The Trump team is correct in believing that sometimes trade imbalances reflect government tampering, though in the capital markets. Messrs. Gagnon and Bergsten found that countries who buy foreign currency to suppress the value of their own tend to have larger trade surpluses.

In the past Chinese currency intervention and tight controls on capital inflows kept the yuan artificially cheap and its trade surpluses inflated. Brad Setser of the Council on Foreign Relations says Taiwan and South Korea have held down their currencies via currency intervention and by encouraging domestic investors to buy foreign assets and discouraging foreign investors from buying domestic assets.

These actions are legitimate cause for complaint. Yet finding an effective deterrent has eluded previous presidents and it's not clear what Mr. Trump can do differently. Punishing China for manipulating its currency makes less sense now that China is trying to prop it up, rather than push it down as in the past.

Mr. Trump might use deficits to pick the wrong fights. Mexico runs a trade surplus with the U.S. Mr. Trump seems determined to fix it by renegotiating the terms of the North American Free Trade Agreement and slapping tariffs on companies that outsource production to Mexico.

But Mexico runs a trade deficit with the world as a whole. The U.S. would be attacking a country that on net is reducing the world's excess of saving, not contributing to it. If the economic and diplomatic damage weren't enough, that's one more reason for the president to be careful about how he picks his battles.

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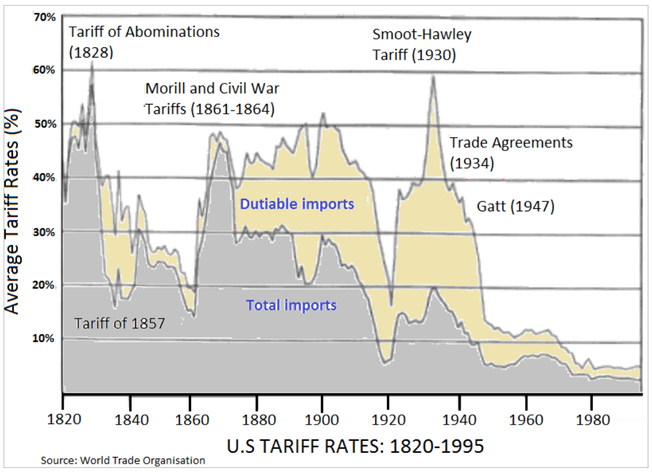
Economic nationalism

Economic nationalism is an umbrella term that includes economic policies and theories designed to improve the domestic economy relative to foreign economies. It therefore subsumes theories such as economic patriotism, protectionism, and mercantilism, all of which are different forms of economic nationalism.[1] Economic nationalists oppose globalization, or at least question the benefits of unrestricted free trade.

Protectionism

In economics, protectionism is the economic policy of restraining trade between states (countries) through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations. Protectionist policies protect the producers, businesses and workers of the import-competing sector in a country from foreign competitors. According to proponents, these policies can counteract unfair trade practices, to allow fair competition between imports and goods and services produced domestically. Protectionists may favor the policy in order to decrease the trade deficit, maintain employment in certain sectors, or favor the growth of certain industries. In recent years, protectionism has become closely aligned with the anti-globalization movement.

There is a broad consensus among economists that the impact of protectionism on economic growth (and on economic welfare in general) is largely negative, although the impact on specific industries and groups of people may be positive.[1] The doctrine of protectionism contrasts with the doctrine of free trade, where governments reduce as much as possible the barriers to trade.



Tariff

A tariff is a tax on imports or exports (an international trade tariff)

Protective tariff

The examples and perspective in this article deal primarily with the United States and do not represent a worldwide view of the subject. You may improve this article, discuss the issue on the talk page, or create a new article, as appropriate. (June 2015) (Learn how and when to remove this template message)

Protective tariffs are tariffs that are enacted with the aim of protecting a domestic industry.[1] Tariffs are also imposed in order to raise government revenue, or to reduce an undesirable activity (sin tax). Although a tariff can simultaneously protect domestic industry and earn government revenue, the goals of protection and revenue maximization suggest different tariff rates, entailing a tradeoff between the two aims

How tariffs work

A tariff is a tax added onto goods imported into a country; protective tariffs are taxes that render the cost of a foreign import higher than the cost of the initially costlier domestic good.[2] For example, if a piece of cloth cost $4 in Britain and $4 in the United States, the American government would have to impose a tariff to make the price of British cloth higher for Americans.[3] The underlying goal for a protective tariff is to protect domestic industry from foreign competition.

Comparative advantage

The theory of comparative advantage is an economic theory about the work gains from trade for individuals, firms, or nations that arise from differences in their factor endowments or technological progress.[1] In an economic model, agents have a comparative advantage over others in producing a particular good if they can produce that good at a lower relative opportunity cost or autarky price, i.e. at a lower relative marginal cost prior to trade.[2] One does not compare the monetary costs of production or even the resource costs (labor needed per unit of output) of production. Instead, one must compare the opportunity costs of producing goods across countries.[3] The closely related law or principle of comparative advantage holds that under free trade, an agent will produce more of and consume less of a good for which they have a comparative advantage.[4]

David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries. He demonstrated that if two countries capable of producing two commodities engage in the free market, then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good, provided that there exist differences in labor productivity between both countries.[5][6] Widely regarded as one of the most powerful[7] yet counter-intuitive[8] insights in economics, Ricardo's theory implies that comparative advantage rather than absolute advantage is responsible for much of international trade.