The double standard of America's China trade policy

By Dani Rodrik
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Many liberal commentators in the US think that Donald Trump is right to confront China over its trade tactics, and object only to his methods. Yet Trump's trade agenda is driven by a narrow mercantilism that privileges the interests of US corporations above those of all others.

A high-profile United States trade delegation appears to have returned empty-handed from its mission in China. The result is hardly a surprise, given the scale and one-sided nature of the US demands. The Americans pushed for a wholesale remaking of China's industrial policies and intellectual property rules, while asking China's government to refrain from any action against Trump's proposed unilateral tariffs against Chinese exports.

This is not the first trade spat with China, and it will not be the last. The global trading order of the last generation – since the creation of the World Trade Organization in 1995 – has been predicated on the assumption that regulatory regimes around the world would converge. China, in particular, would become more "Western" in the way that it manages its economy. Instead, the continued divergence of economic systems has been a fertile source of trade friction.

There are good reasons for China – and other economies – to resist the pressure to conform to a mold imposed on them by US export lobbies. After all, China's phenomenal globalization success is due as much to the regime's unorthodox and creative industrial policies as it is to economic liberalization. Selective protection, credit subsidies, state-owned enterprises, domestic-content rules, and technology-transfer requirements have all played a role in making China the manufacturing powerhouse that it is. China's current strategy, the "Made in China 2025" initiative, aims to build on these achievements to catapult the country to advanced-economy status.

The fact that many of China's policies violate WTO rules is plain enough. But those who derisively call China a "trade cheat" should ponder whether China would have been able to diversify its economy and grow as rapidly if it had become a member of the WTO before 2001, or if it had slavishly applied WTO rules since then. The irony is that many of these same commentators do not hesitate to point to China as the poster boy of globalization's upside – conveniently forgetting on those occasions the degree to which China has flouted the global economy's contemporary rules.

China plays the globalization game by what we might call Bretton Woods rules, after the much more permissive regime that governed the world economy in the early postwar period. As a Chinese official once explained to me, the strategy is to open the window but place a screen on it. They get the fresh air (foreign investment and technology) while keeping out the harmful elements (volatile capital flows and disruptive imports).

In fact, China's practices are not much different from what all advanced countries have done historically when they were catching up with others. One of the main US complaints against China is that the Chinese systematically violate intellectual property rights in order to steal technological secrets. But in the nineteenth century, the US was in the same position in relation to the technological leader of the time, Britain, as China is today *vis-à-vis* the US. And the US had as much regard for British industrialists' trade secrets as China has today for American intellectual property rights.

The fledgling textile mills of New England were desperate for technology and did their best to steal British designs and smuggle in skilled British craftsmen. The US did have patent laws, but they protected only US citizens. As one historian of US business has put it, the Americans "were pirates, too."

Any sensible international trade regime must start from the recognition that it is neither feasible nor desirable to restrict the policy space countries have to design their own economic and social models. Levels of development, values, and historical trajectories differ too much for countries to be shoehorned into a specific model of capitalism. Sometimes domestic policies will backfire and keep foreign investors out and the domestic economy impoverished. At other times, they will propel economic transformation and poverty reduction, as they have done on a massive scale in China, generating gains not just for the home economy but also for consumers worldwide.

International trade rules, which are the result of painstaking negotiations among diverse interests – including, most notably, corporations and their lobbies, cannot be expected to discriminate reliably between these two sets of circumstances. Countries pursuing harmful policies that blunt their development prospects are doing the greatest damage to themselves. When domestic strategies go wrong, other countries may be hurt; but it is the home economy that pays the steepest price – which is incentive enough for governments not to pursue the wrong kind of policies. Governments that worry about the transfer of critical technological know-how to foreigners are, in turn, free to enact rules prohibiting their firms from investing abroad or restricting foreign takeovers at home.

Many liberal commentators in the US think Trump is right to go after China. Their objection is to his aggressive, unilateralist methods. Yet the fact is that Trump's trade agenda is driven by a narrow mercantilism that privileges the interests of US corporations over other stakeholders. It shows little interest in policies that would improve global trade for all. Such policies should start from the trade regime's Golden Rule: do not impose on other countries constraints that you would not accept if faced with their circumstances.

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