

Trade experts agree engaging with China still preferable

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International trade experts agreed engaging with China is still preferable as the United States and its allies consider how to deal with China's rise in the global economy.

"I'd describe it as engagement with eyes wide open, so that we're not being taken advantage of," U.S. Rep. Ron Kind said yesterday during a webinar hosted by WisPolitics.com, WisBusiness.com and the Wisconsin Technology Council.

He noted that throughout history, an established global power grappling with the rise of another global power tends to lead to conflict. To avoid that outcome, he called for a "mutual relationship" between the United States and China.

"Trust but verify, to use President Reagan's term, but one that doesn't cut off those avenues of constructive engagement," said the member of the House Ways and Means Trade subcommittee. "And I think trade is still one of those avenues that can produce some win-win situations for the American consumer, the American producer, but also what China needs today too, so that they don't view us as just a hostile power trying to thwart whatever they're trying to accomplish."

Prof. Samantha Vortherms, an expert on China at the University of California-Irvine, agreed that "decoupling kind of weakens our stance," arguing the United States has had more success with "engagement, rather than stepping away."

Her research has found few established U.S. firms have been leaving China and returning to the United States amid the trade war. She said “we’re not seeing that decoupling,” adding recent surveys of these companies have found most firms are looking to diversify within China.

“Because the market is so valuable, that it overcomes the costs that come in from these trade wars,” she said. “Decoupling itself is a very difficult, and in many ways, probably impossible process.”

Rather than vacating the market, she said many large firms are “sticking it out,” finding cheaper ways to produce in China or passing costs on to consumers.

Meanwhile, Prof. Enrique Dussel Peters of the National Autonomous University in Mexico called for a more “pragmatic” approach in how the United States interacts with China. He said the U.S. goal of building resilient internal supply chains for critical products is “providing China with very strong arguments” as it develops its own industries.

“I would invite a more pragmatic, less holistic view, less ideologically tainted,” he said. “But this is not easy.”

While Kind acknowledged international firms’ hesitancy in leaving the Chinese market, he argued “we also need to, as far as our own national security interests, start distinguishing those vital products that are essential for our national security, let alone our competitiveness.”

He questioned the wisdom of “allowing the outsourcing of that R&D, product development, manufacturing, to be based in China,” pointing to semiconductors as the prime example. He noted these products are essential for the modern economy,

adding the United States has become dependent on other countries for their production.

But Peters said a decoupling strategy is inherently defensive, arguing the United States “is not necessarily willing to share some of the benefits with the new rich guy in town,” referring to China.

“Again, a decoupling strategy runs against what the United States has been doing in the last century, since the second World War,” he said. “This is even ideologically, globally from a strategic perspective, very difficult to discuss with other partners, no?”

Vortherms noted research shows the “souring relations” between the United States and China has increased trade among the rest of the world, diversifying global trade connections outside of that relationship. She expects to see more trade along these lines, pointing to the example of Chinese producers moving to Vietnam to avoid trade restrictions.

Kind also highlighted his support for the United States rejoining the Trans-Pacific Partnership, as China is exploring the possibility of joining the trade agreement. He noted the TPP framework includes structural reforms the United States is already demanding China make, as well as enforceability measures.

“It would be awfully damn silly for the United States to continue to be on the outside looking in on such a substantial, significant trade agreement in the fastest-growing economic region in the global economy, the Pacific rim area,” he said.

Watch a video of the discussion here:

https://www.youtube.com/watch?v=5sEQWd0_C-Q

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