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Apply the Obama Doctrine to the Trade Problems With China

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March 29, 2011 – We have one trade problem in this country that so far surpasses every other one that it is almost not worth talking about any of the others. The problem is Chinese subsidy practices, and our resulting $260 billion sustained trade deficit with China. The problem has recently taken on a new, more dangerous bent. First, China has made it increasingly clear they are not going to do anything about their undervalued currency. One aspect of the currency problem has been much talked about -- how it makes Chinese exports to the United States very cheap and our exports to China uncompetitive.

But it is now clear that the Chinese undervaluation has an even more nefarious and dangerous and long-term effect. It is a big driver forcing U.S. companies to leave the United States and relocate to China. This is because of the simple reason that a relatively "overvalued" dollar goes much further in China building plants and buying inputs and paying workers, than it does in the United States. This is not just a question of very low wages in China, it is about the additional accelerant of low cost renminbi making already low wages and cheap inputs even cheaper. So U. S. companies cannot afford to stay in the U. S. And once they leave it is very unlikely they will ever come back.

The other development is a Chinese government pronouncement late last year that they are pumping subsidies of $1.5 trillion into seven strategic industries. The money will be going to the same emerging industries that President Obama and substantially every governor in the United States touts as the "industries of the future" that will rescue the United States from its high unemployment and anemic growth. The industries include information technology, environmental protection, new forms of energy (read wind and solar), biology, and new materials.

On average that's $214 billion per industry, and this leaves even the best U.S. companies with a choice. They can stay in the United States and scrap for the few million dollars the local communities and states and Federal government might provide. Or they can pull up stakes, go to China, and get their share of the $1.5 trillion being passed out over there. The Chinese, by the way, have no problem giving their money to U.S. companies, if the U.S. companies will put their plants up in China and turn over their technology. Unfortunately, even for the most patriotic CEO's and Boards of Directors, this is an offer that is almost impossible to refuse.

President Obama has not done nearly enough about this. There is no unfair trade strike force to fight back against Chinese subsidies. There's no application of the countervailing duty (anti-subsidy) law to Chinese currency undervaluation. There's no new trade legislation being proposed to modernize our laws, despite the fact that our last major trade law reforms occurred in 1994, 17 years ago.

Why is this? I suspect that one reason is that President Obama does not want the United States alone to bear the brunt, economically or in terms of foreign policy, of standing up to China. All the Treasury bonds held by China, all the U. S. companies already substantially invested there, the Chinese spot on the U. N. Security Council, all militate against this much needed aggressive posture on trade.

But I urge the president to take a lesson from himself, and apply the reasoning of Monday night's speech on Libya to the international trade arena. The President should work on building an international consensus to deal with Chinese subsidies. He should direct his trade officials to meet intensively with other countries to kick-off this initiative. I think he would find allies for this effort in the European Union, and in Mexico, Turkey, Argentina, Canada, Brazil, and Japan, among other countries. I have talked to trade negotiators and industries in all these countries and they share our concerns. None of them want to see their industries moving to China, particularly the emerging industries of the future.

Conveniently, Secretary of the Treasury Tim Geithner is going to Nanjing, China this week to meet with the G-20 leadership to discuss global economic issues. He should take the opportunity to meet off-line with like minded G-20 leaders and should focus on two issues. First, he should suggest that these countries join with the United States to begin an anti-subsidy case at the WTO (World Trade Organization) regarding the Chinese undervalued currency. In my view this international case is not the ideal approach; it would be better to proceed alone under our own laws. But it may be one the Administration is more comfortable with, consistent with the new Obama Doctrine of coalition building.

Secondly Mr. Geithner should call on key members of the G-20 to begin a strategic dialogue with China, on their subsidy practices for emerging industries, which would demand a change in direction. Subsidies are as unfair and distortive as tariffs, a trade barrier the U.S. led the world in fighting back years ago when it started the GATT and the WTO. It is now time for us to exercise the same leadership on this most significant unfair trade practice of today.