April 6, 2022

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Testimony before the U.S.-China Economic and Security Review Commission

Hearing on "Challenging China's Trade Practices: Promoting Interests of U.S. Workers, Farmers, Producers, and Innovators"

A. How would an Economic NATO Work REGARDING CHINA

An Economic NATO presumes a common policy among its members on trade with, investment in and from, and transfer of technology to China. As has become apparent in the case of the Russian-Ukraine war, even though NATO is not directly involved, most of the major corporations of the NATO countries have decided to halt or suspend their operations in Russia. Further, the NATO countries are drastically curtailing their imports from Russia and are aiming effectively to achieve a state of minimal dependence on the Russian economy.

In the case of China, an ENATO might not be much concerned by the operations of say a Starbucks or a Nestle in China or of an Alibaba in the free world. But all the ENATO members would have to refrain from any significant dependence on China for things like advanced telecommunications equipment, semiconductors, robotics, and essentially all advanced technology products and services. Nor would members be allowed to sell advanced products and technological know how to China. A corporation like Apple, which makes everything it sells in China, would have to be forced to move most of its production out of China and to halt transfer of any advanced technology to China. This may sound draconian, but it is important to remember that China's Dual Circulation and Made in China 2025 and 2035 policies are aimed at achieving Chinese autonomy across the board in the short to medium term.

By the same token, just as NATO members are not allowing their banks and equity funds to invest in Russia today, so ENATO members would have to have very strict rules limiting free world investment fund activity in China and Chinese investment in the ENATO countries. Black Rock hedge fund manager Larry Fink recently declared globalization to be over as a result of the Russia-Ukraine War and of China's backing of Russia. Thus, even without and ENATO, major U.S. investors are dramatically changing their investment tune.

China uses economic dependence upon it as a coercive weapon. We have seen that in the cases of Australia, South Korea, Norway, Lithuania, Germany, and even of the U.S. in the case of Beijing's cancellation of the broadcasting of National Basketball Association games in China as punishment for a U.S. team manager's tweet in support of protestors in

Hong Kong. To avoid coercion, ENATO members would have to monitor constantly the degree of their dependence on China and would have to coordinate counter measures among themselves. For example, recently, China barred imports of wine from Australia. An ENATO would have a common fund aimed at deterring such Chinese action. The fund would buy the wine rejected by the Chinese and redistribute it in other world markets.

Were an ENATO to come into existence, it would supersede the WTO and effectively divide the global economy into one free world economy and one mercantilist economy that would engage with each other on strictly reciprocal terms.

B. WHAT IS SUCCESS IN DEALING WITH CHINA'S TRADE PRACTICES?

What we refer to as "China's trade practices" really go far beyond mere trade. China aims as a matter of its quasi-quasi-religious socialism with Chinese characteristics doctrine to develop the world's largest, most technologically advanced economy with leadership and autonomy in all the cutting- edge technologies and with

Purely trade practices are only a relatively small part of the problem and could be reasonably well handled by aggressive use of existing remedies. Dumping by Chinese exporters is endemic and yet the number of anti-dumping cases being processed by the U.S. government is relatively small. The reason for this is that the government typically waits to act until there is a complaint from private industry. But private industry hesitates to complain because it is subject to retaliation by China. The solution to this is readily available. Under U.S. trade law, the Secretary of Commerce has the authority to self-initiate anti-dumping cases. It has only been done once. That was by Secretary Malcolm Baldrige of the Reagan administration against the Japanese for dumping of semiconductors. It worked extremely well. Not only did the Japanese stop the dumping. They also took concrete steps to open the Japanese market. Henceforth, the Secretary of Commerce should become aggressive in identifying and combating Chinese dumping.

However, trade per se is only a small part of the problem which is broad and inclusive a broad variety of elements. For instance,

the Chinese Renminbi is kept chronically undervalued by the Chinese government. The U.S. Secretary of the Treasury should be constantly monitoring exchange rates and should declare China to be a currency manipulator and make China subject to retaliation for that malpractice.

Indeed, China has been operating a full-fledged, mercantilist, catch-up economic/industrial development program while U.S. leaders have clung to the view that China will become a "responsible stakeholder in the liberal, rules based, global order." China's comprehensive development policy has been and is more about enticing and forcing foreign investment into China, transfer of production from previous locations to China, compulsory exportation of products from China, and comprehensive transfer of technology to China. More recently, Beijing has encouraged the acquisition of foreign high- tech organizations and the transfer of their technology by Chinese corporations. Thus, the game is not so much trade as technology acquisition, and establishment of dominant manufacturing capacity in China.

Heretofore, American policy has almost perfectly complemented Chinese policy. It has encouraged transfer of technology from America and the free world to China while at the same time reducing funding and promotion of new technology development at home. It has privileged Chinese state- owned corporations by allowing them to list on U.S. stock exchanges without meeting the same listing standards as those required of American corporations. By not strictly enforcing trade agreements and by, in effect, encouraging the offshoring of production, technology, and jobs to a country in which labor unions are outlawed, environmental standards are lax to non-existent, taxes are suspended for several years for new investments, land is provided at no cost, and investment incentives can amount to a large percent of the total cost, Washington, Wall Street, the American press and academic institutions along with the Business Roundtable and Chamber of Commerce have been consistently and steadily undermining U.S. competitiveness and manufacturing and technological leadership.

Both the Trump and now the Biden administrations have taken some baby steps away from this historical pattern, but much more needs to be done. Any Chinese investment in U.S. corporations or technology should be subject to U.S. government approval. China based production is inexpensive because labor unions are banned, safety and environmental rules are lax to non-existent, much of the investment in land and equipment in China is subsidized, and the costs of greenhouse gas emissions resulting from production and shipment are completely ignored. Carbon border taxes, environmental equalization charges, and a market access charge (MAC) on other than green field investment in the U.S. should be imposed. These would be meaningful steps toward success. A further step would be reduction in corporate taxes on profits generated by U.S. based production as opposed to production abroad.

In short, the United States must stop trying to convince China to stop playing football and adopt baseball in its place. China will never do so. Success will come when America starts playing football too.

C. UNDER-UTILIZED TOOLS

There are several tools not much used that potentially could have a significant impact on trade and investment with China. One is the Market Access Charge (MAC) mentioned above. Many countries operate their economies in ways to keep their currencies undervalued versus the U.S. Dollar. These include such as Switzerland, Japan, South Korea, Taiwan, Singapore, and Germany. This tends to drive U.S. based production abroad. A flexible charge of 1-5 percent on non-productive incoming investment into the U.S. would do much to level the playing field. The proceeds could be used to fund infra-structure improvement.

I have already mentioned self-initiation of anti-dumping cases by the Secretary of Commerce.

The U.S. government could declare a balance of payments emergency. U.S. trade has been in constant and enormous deficit for the better part of fifty years. This is only possible because of the floating exchange rate system and the reserve currency role of the U.S. dollar. Of all the countries in the world, only the U.S. dollar could remain viable in this situation. Under World Trade Organization rules, Washington could declare a balance of payments crisis, temporarily suspend WTO tariff commitments, and impose tariffs as needed to correct the balance.

The Defense Production Act of 1950 broadly enables the President to direct industry to make and distribute products and services necessary to the well being of the United States. This act could be used to ensure that various products such as medicines, semiconductors, smart phones, and artificial intelligence devices are made in the United States. For instance, under this act the White House could compel products like smart phones to be made in the United States. In view of the recently revealed vulnerability of global supply chains, this act should be used to ensure that the United States is not vulnerable to fragile, far flung, global supply chains.

D. MARKET ACCESS CHARGE (MAC)

The concept of a MAC is simple, easily possible, and quite necessary. When the global financial system was first established in 1948, it was based on a gold/dollar standard with the dollar valued at $35 per Troy ounce of gold and all other currencies fixed to the dollar (360 Japanese yen, 4 Swiss francs, etc.). The objective was a trade system in which the trade of each country would be in medium and long- term balance. No one imagined that major economies would or could accumulate eternal trade deficits.

Indeed, by 1972, the system was demonstrating this to be a fact. America was experiencing successive trade deficits and many countries found they were holding more dollars than they needed or wanted. They began to exchange those for gold. A yellow river began to flow from Fort Knox to London, Paris, Frankfurt, and Tokyo as U.S. trading partners turned in their dollars for gold. With the U.S. gold supply literally melting away, President Nixon simply and unilaterally announced that the U.S. would no longer exchange gold for dollars. Treasury Secretary John Connally famously told the Europeans that “the dollar is our currency but now it’s your problem.”

That may have been true at that moment, but by making the dollar the main global reserve currency, Connally and Nixon also inadvertently made it subject to chronic overvaluation and a target for manipulation by mercantilist countries pursuing export led growth strategies.

The MAC could be a key tool for properly valuing the dollar in international trade and bringing U.S. trade into something approaching balance and thereby creating more jobs and wealth in the United States

E. HOW CAN THE U.S. COUNTER CHINA'S INDUSTRIAL POLICIES

An old saying advises that "if you can't lick em join em." A huge fallacy of post WWII American economics and trade doctrine is that industrial policies don't work and that the United States should avoid them even if they appear to be helpful to other countries.

The fact is that industrial policy often works exceedingly well. Moreover, the United States has been a major beneficiary of industrial policy. American producers have long been leaders in global aviation markets. This was not the result only of entrepreneurial genius on the part of American business leaders. The U.S. government has subsidized and promoted the aviation industry from the time of the Wright brothers. After WWII, Japan and Germany were banned from producing airplanes for many years. The first major, civilian jet liner was the Boeing 707 which was a civilian copy of the KC-135 U.S. Air Force jet tanker. Sometimes I ask audiences who invented the Internet. They often reply: Steve Jobs, Bill Gates, or Jeff Bezos. No. It was DARPA- the Defense Advanced Research Projects Agency.

For years as a U.S. trade negotiator and as an economist and trade analyst, I argued that the United States should not allow its industries like the semiconductor industry to lose global leadership because of the impact of the industrial policies of countries like Taiwan, Japan, and South Korea. For years, conventional wisdom -oriented economists said I was wrong and that if foreign producers could produce semiconductor chips more inexpensively and advance the technology more rapidly, we should take advantage of their chips and not worry about it if the U.S. industry went down. But now, faced the fact that by dint of industrial policy Taiwan and South Korea are more advanced in chip production than America and the fact that China is committed to achieving global semiconductor leadership, American leaders have finally turned a deaf ear to outdated economists and are pouring $50 billion into support of the U.S. semiconductor industry.

The answer to China's industrial policy is a thorough going American industrial policy aimed at dramatically reducing American dependence on fragile, far-flung supply chains anchored in hostile countries.

F. HOW TO DEAL WITH CHINA'S SUBSIDIES

A Section 301 investigation of China's trade practices will inevitably discover substantial government subsidization of investment, production, and delivery. One way to deal with this is the self-initiated dumping investigations I mentioned above. Another way is to impose counter-vailing duties. But the best way is to make the stuff in America or in countries like Mexico that are not seeking to overturn America's global leadership and ideals. De-coupling from China should be the number one goal of American trade policy.

In this regard, another target of U.S. trade policy must be American companies like Apple and Goldman Sachs. Everything that Apple makes and sells originated in some U.S. government financed research program. Everything that Apple sells is made in China. In Washington, Apple is a power political player. It has armies of lawyers and lobbyists and writes a lot of legislation itself. The CEO of Apple has instant entrée into the highest levels of the U.S. government and his company makes major political donations. In short, in Washington, he is extremely powerful.

But, you know what. In Beijing, he kowtows. He has no influence and is subject to constant potential coercion because there is no rule of law to protect him and his company against a sudden "power shortage", or unscheduled inspection, or any number of things that might constitute the death of a thousand cuts. The truth is that the CEO of Apple is more afraid of and more responsive to Beijing than to Washington. He will lobby the U.S. congress on behalf of Beijing. Nor is it just Apple. Think Goldman Sachs, Ray Dalio, Fedex, and many, many more.

A major target of this Commission should be U.S. industry. It is chartered in America. It is given the huge gift of limited liability that goes with corporation status. The state grants that gift because it expects the corporation to do something good for the whole society. We must start asking U.S. CEOs how moving production and R&D to China is good for America. When they testify before the U.S. Congress they always present themselves as American CEOs. But are they really? Is the head of Apple thinking about what is good for America or about how many subsidies he can get from Beijing that will result in profits that he can hold in Bermuda or Singapore without being subject to American taxation?

G. AFFECT OF REPEALING PERMANENT NORMAL TRADE RELATIONS

Permanent Normal Trade Relations is an awkward term developed to replace and offset the implications of the traditional and more accurate – Most Favored Nation Relations - known as MFN.

Traditionally, nations did not maintain the same terms of trade with all nations. Rather some received more favored treatment than others for a variety of reasons. Perhaps they were allies or neighbors or offered something that no one else offered. MFN were the terms of trade offered to the country or countries with which one wanted to have a particularly friendly and prosperous relationship. When the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO) were established, the members agreed to offer MFN to all other members. It is important to note that this was not an offer of normal trade relations. It could not be because there never was any such thing as normal trade relations.

The verbal creativity arose when trade with China began to grow rapidly. The U.S. granted MFN to China beginning in the early 1980s, but it did so only on an annual basis because of the hangover of old national security concerns. One reason China wanted to join the WTO was because joining would automatically require that it be granted permanent MFN like all other WTO members. But in the discussions of welcoming China into the WTO, the term Most Favored Nation seemed to some to be a political obstacle. How could a communist country be among our most favored nations? So proponents of China's WTO membership came up with the Permanent Normal Trade Relations (PNTR) moniker as a more politically palatable formulation.

The problem is that so called PNRT with China is not normal at all. China's very state led economic system makes PNTR meaningless. No matter what trade relations we offer China we will never receive the same in return. But China is now a member of the WTO. If we were to withdraw the PNTR status unilaterally, we might also be expected to withdraw from the WTO. That probably would not be the wisest move.

The results we need can be achieved by means of some of the suggestions I have made above.

H. HOW ABOUT A MULTILATERAL PATHWAY OUTSIDE THE WTO

This idea deserves more attention. The U.S., EU, and Japan account for well over half of global GDP. If we add the GDP of other democracies, we will arrive at about 85 percent of global gdp. This could easily be democratic world trade organization. The fact is that a marriage of the economies of democratic countries with those of autocratic countries is not made in heaven. It was dreamed at the time of the entry of China into the WTO that free trade would democratize the country. Clearly it has not. If anything it has enabled China to become more powerful and more threatening to democratic countries.

A Democratic Trade Organization (DTO) is a good idea that should be pursued.

I. BALANCING SECURITY WITH FAIR ECONOMIC COMPETITION

A fallacy of free world economic policy over the past seventy years has been to assume that economic globalization would inevitably lead to global democratization and rule of law. No risks or costs were attached to the establishment of complex, far flung supply chains, to carbon gas emissions, to theft of intellectual property, to potential loss of critical skills in the work force, to worker displacement, or to the effective capture of global CEOs by authoritarian systems aiming to undermine the free world.

In the future, it will be essential to do the math comprehensively. For instance, shipping by air and sea accounts for about 14 percent of global greenhouse gas emissions. There is a known cost of those emissions. It should be included in the transport bill when items are shipped. The result would inevitably be less shipping and more production closer to population centers. Similar calculations should be made and applied to all of the unincluded costs noted above.