

Taming the Dragon

Asan Institute for Policy Studies

Ben Forney

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On December 21, 2016, Donald Trump appointed Peter Navarro as head of the newly created National Trade Council at the White House, making him the first economist to secure a senior post in the administration. Calling Navarro a “visionary economist,” Trump’s transition team said in a statement that he would “develop trade policies that shrink our trade deficit, expand our growth and help stop the exodus of jobs from our shores.”¹

Navarro’s history of visceral polemics against China was echoed by Trump during his presidential campaign. Throughout 2016, Trump labeled China as “the great abuser” of America’s economy. In May, he told supporters at a rally in Fort Wayne, Indiana: “We can’t continue to allow China to rape our country.” “We’re like their whipping post,” he said in August. “They suck the blood out of us,” he claimed the following month. Such rhetoric bodes ill for an amicable future of the Washington-Beijing relationship.

Harvard PhD and author of three scathing books on China, Navarro sees U.S.-China relations as heavily one-sided, favoring China to the detriment of U.S. interests. Navarro’s writing highlights several of the key issues that propelled Trump into the White House—the loss of U.S. manufacturing jobs, economic stagnation, and a perceived military weakness overseas. For Navarro, the primary culprit behind these disasters is China. China is not just rising; it is becoming the single greatest threat to global stability. Ultimately, Navarro believes that America must slow China’s economic and military growth if U.S. interests are to be protected. He proposes a policy of containment that radically diverges from the U.S.’ current stance towards China. Trump has repeatedly expressed his admiration for Navarro’s ideas, and with Navarro now occupying

¹ The Trump-Pence Transition Team. <https://greatagain.gov/navarro-national-trade-council-c2d90c10eacb#.v0e4bs7ho>. Accessed December 27, 2016.

a prominent place in Trump's White House, it is necessary to understand what policies he might recommend to the president.

In terms of trade, a Navarro-influenced Trump would act swiftly to rebalance the deficit between the U.S. and China. The economic relationship would likely take precedence over other issues, as Trump has suggested he would be willing to use long held geopolitical norms as bargaining chips to create trade conditions more favorable for the U.S. He is likely to do exactly as he promised during his campaign: impose high tariffs on Chinese goods entering the U.S. Trump has put forth the figure of 45% (Navarro proposed 43%). If enacted, bilateral trade would be severely disrupted, as China would be likely to respond with its own retaliatory restrictions. This would affect global supply chains and hurt countries like South Korea and Taiwan, who produce many of the components for Chinese-manufactured goods. Yet even if this pressure forces some manufactures to relocate outside China, it is not clear how Trump could get them to return to America, rather than an even lower cost country like Vietnam.

Ultimately, raising tariffs on Chinese imports and convincing Americans to stop buying Chinese made goods will not benefit the American consumer or the wider economy. Trying to bring back all of the low cost manufacturing jobs is impractical for the America of 2017. According to a recent report, nearly 88% of manufacturing jobs lost in America were due to higher productivity, not imbalanced trade with China.² In other words, many of these jobs would likely become automated if they remained in the U.S., and the higher cost of American manufacturing would ensure that some of its products remain less competitive internationally and more expensive for domestic consumers. Rather than wrest back all of these low skilled jobs, America would be better served by developing a highly skilled workforce that can excel in the industries that the Chinese have not yet mastered. Trying to take down the Chinese economy by

² Hicks, Michael and Devaraj, Srikant. The Myth and the Reality of Manufacturing in America. Ball State University Center for Business and Economic Research. June 2015.
<http://conexus.cberdata.org/files/MfgReality.pdf>. Accessed December 26, 2016.

making America's manufacturing sector strong in the way it was fifty years ago is unrealistic and potentially destabilizing for the global economy.

One of Trump's first acts as president was to withdraw America from the TPP. In a co-written article in *Foreign Policy*, published one day before the election, Navarro surmised: "Trump will never again sacrifice the U.S. economy on the altar of foreign policy by entering into bad trade deals like the North American Free Trade Agreement, allowing China into the World Trade Organization, and passing the proposed TPP."³ Trump believes such moves will help keep American industries competitive. Yet in reality, abandoning the TPP will cede Asia's economic agenda to China for the foreseeable future. It would be another signal to U.S. allies that America wants to disengage from the region.

Both Trump and Navarro claim that free trade itself is not on trial, but only unfair trade agreements that benefit other countries at the expense of the American worker. Yet although they claim to support free but fair trade, their policy proposals are tantamount to protectionism. Navarro seems to advocate for direct government interference in the market, and Trump has already begun to do so with his personal intervention at the air conditioning manufacturer, Carrier. What both men seem to promote is a type of neo-mercantilism, in which exports are encouraged, imports are discouraged, and the government plays a direct role in economic affairs.

Trump also shares Navarro's belief in the connection between slower economic growth and slower military buildup. But such a belief in this questionable correlation is dangerous. A China that is isolated economically has less to lose from starting an international conflict, and the increased internal instability brought on by a flagging economy will only make the leaders in Beijing more likely to break from their policy of patient, planned expansionism. To prove how an underperforming, isolated economy can still develop a threatening

³ Gray, Alexander and Navarro, Peter. "Donald Trump's Peace Through Strength Vision for the Asia-Pacific." *Foreign Policy*. November 7, 2016. <http://foreignpolicy.com/2016/11/07/donald-trumps-peace-through-strength-vision-for-the-asia-pacific/>. Accessed November 7, 2016.

military, one needs to look no further than China's neighbor and ally, North Korea.

Navarro tackles the Taiwan issue directly. In his view, the "One China" policy has forced Washington to restrict its behavior when dealing with Taipei, a former military ally, current trading partner, and bastion of democracy. In a July 2016 *National Inquirer* article, Navarro advocated stronger ties with the island nation: "American leaders should never acknowledge the 'One China, Two Systems' policy—nor even refer to the 'One China' policy again."⁴ Such a move would surely incite Beijing's disapproval. But if Trump can pull off a smart, nuanced policy that enhances the U.S.-Taiwan relationship without fomenting a conflict with China, it could buttress US commitment to its allies and provide stability to a potential flashpoint in the region.

Given his notorious unpredictability, Trump's Asia policy remains ambiguous. But Trump seems more serious about holding China accountable for its behavior than any other president in recent history. He is fully aware that his actions thus far have already shifted the paradigm of U.S.-China relations. If Trump trusts Navarro's views, the safe bet is that relations between the two countries will deteriorate once he takes office in January. How rapidly the relationship will devolve remains to be seen. His appointment of pro-trade Iowa Governor Terry Branstad as the US ambassador in Beijing provides some hope that Trump will maintain a level of continuity between the countries. Yet such optimism remains tenuous given his consistently anti-China rhetoric.

⁴ Navarro, Peter. "America Can't Dump Taiwan." *National Interest*. July 19, 2016.

<http://nationalinterest.org/feature/america-cant-dump-taiwan-17040>. Accessed December 23, 2016.