

Why Trump wants the U.S. to act more like China

By Ana Swanson April 6

For years, American politicians and business leaders have demanded China approach its economic policy in a manner more similar to the United States. They have pushed the nominally communist country to cut support to its state-run enterprises, drop barriers against foreign goods and level the playing field between Chinese companies and their foreign competitors.

But as President Trump meets with Chinese President Xi Jinping in Mar-a-Lago this week, he may take a markedly different approach: threatening that the United States will soon act more like China.

Trump's campaign tapped into deep skepticism about free trade, and as president he's promising to govern with an "America first" economic nationalism that includes using government resources to help domestic industry and leveraging trade policy to help insulate American businesses from foreign competition. It's an approach that sets Trump apart from traditional Republican allies who have championed free markets and looks surprisingly similar to the Chinese tactics Americans have criticized in the past.

“Mr. Trump seems to want to move the U.S. toward China’s approach, rather than move China toward the U.S. approach of open trade and globalization,” says Eswar Prasad, a professor of trade at Cornell University. That represents a shift in strategy from the past, when U.S. leaders aggressively proselytized the benefit of open markets, even if they didn't always wholly achieve them at home.

“He seems to want the U.S. to be more like China than China to be more like the U.S. And I’m not sure that’s the best path for the U.S. to go down,” Prasad says.

The problem, economists and business leaders say, is that the economic issues Trump has highlighted in the past with regard to China have little overlap with those that most concern American industry. The two issues that Trump has emphasized most are the large bilateral trade deficit the United States maintains with China and China’s history of currency manipulation — issues that resonate politically in the United States but probably hold little practical benefit for American businesses and consumers.

Economists say bilateral trade deficits are a poor metric on which to judge an economic relationship, because a trade deficit can be reduced through measures that actually hurt domestic consumers, as well as measures that help them. And although China has a long history of currency manipulation, it has actually been propping up the value of its currency for the past several years, a policy which has helped U.S. exporters.

Instead, for U.S. businesses, the real points of friction with China revolve around protectionist rules and regulations that shelter Chinese industry from American competition. That includes the lack of access to certain markets that U.S. companies excel in, like financial services, theft and forced transfer of intellectual property, and big subsidies for Chinese state-owned companies in the form of low-priced electricity, land and loans.

“The big challenge for Mr. Trump is to pick the right fight, the ones that have more economic substance to them and where he can actually make progress,” Prasad says. “The risk is that he will end up focusing on issues that resonate better with his political base but really prove to be hindrances to making progress on the more substantive issues.”

In the past few years, China has been opening its market in some ways, but in others it has actually increased its protectionist intervention, says Myron Brilliant, executive vice president and head of international affairs for the U.S. Chamber of Commerce.

“There’s a real economic nationalism that has grown in China over the last five to seven years, and that has curtailed not just profit but also access to the markets for various industries,” Brilliant says. “Rather than seeing the market become more attractive to firms, it’s become more difficult.”

China’s reforms have seen the country take “one step forward, one step to the side and one step back, which has been the pattern in the last several years,” Brilliant says. “It’s safe to say we very much applaud the initiative by the administration to take stock of what can be done in the relationship.”

The major point of contention is that, despite China’s promises to open its economy after joining the World Trade Organization, the country has remained closed to many American businesses.

“That’s not to say that there is unrestricted access for the Chinese investment in the American market, there’s not,” says Kevin Rudd, former prime minister of Australia and president of the Asia Society Policy Institute in New York. “But the bottom line is China is a more restrictive investment environment than the U.S.”

China may be highly reluctant to change these policies that protect powerful state-owned companies from foreign competition. This fall, Chinese leaders will hold an important political meeting at which Xi is likely to appoint a political successor. China watchers say Xi will be reluctant to appear weak at this pivotal political moment.

Yet Xi would also probably be reluctant to deal with a trade war with the United States, on top of other domestic economic issues, like rising debt, overcapacity in certain industries and bubbles in the housing market, says Heiwai Tang, professor of international economics at Johns Hopkins School of Advanced International Studies.

“The weak economy in China is likely to push Xi Jinping to be more careful when he has to deal with protectionist policies in the US. He definitely doesn’t want to risk the possibility the global situation is going against the Chinese export section,” says Tang.

In addition, the United States may hold a useful bargaining chip. China is eager to have the United States and European Union treat it as a “market economy” under World Trade Organization rules. The designation would prevent the United States and E.U. from putting more punitive tariffs on Chinese companies and industries that violate anti-dumping rules.

“Right now, that is a useful bargaining lever the U.S. has, because China really wants that prize,” Prasad says.

But the problem there is Trump will be pushing things that resonate politically but don't matter much to his business allies and that economists say won't matter much.

Most economists and China watchers say the meeting at Mar-a-Lago is unlikely to produce any major breakthroughs. If Trump and Xi do push forward on a particular issue, it’s likely to be the emerging nuclear threat of North Korea. Instead, the meeting is likely to set a foundation for the relationship between the leaders of the world’s two largest economies.

Still, there are many significant economic issues lurking in the background. It remains to be seen whether Trump will use the leverage to make progress on the issues that he talked about on the campaign trail — or the issues that matter most to U.S. businesses.

“The question is whether Mr. Trump is just playing hard ball as a negotiating stance before he gets down to the specifics that really matter, or if the discussions will get bogged down on those issues where it’s going to be difficult to make immediate and direct progress,” Prasad says.

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