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Tariffs Should Target Chinese Lawlessness, Not the Trade Deficit

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Beijing's strategy is to steal technology from American and other Western companies.

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Made in China 2025 is Beijing's plan to dominate global markets in a wide range of high-tech products. China's strategy is to give large government subsidies to state-owned companies and supplement their research with technology stolen from American and other Western companies. This theft includes using the internet to invade the computers of foreign firms and forbidding companies to do business in China unless they share their technology with Chinese firms.

The U.S. should not let these outrageous practices continue. That is the real reason why the Trump administration has threatened tariffs of 25% on $200 billion of Chinese exports to the U.S.—nearly half the total—unless Beijing reforms its policies. President Trump has given the Chinese until March 1 to do so before the tariffs take effect. This policy has bipartisan support in Congress, including from Democratic leaders Nancy Pelosi and Chuck Schumer.

The office of the U.S. trade representative conducted a thorough investigation of Chinese policies this March and filed a complaint with the World Trade Organization. The Chinese objected, and as usual the WTO did nothing. The rule to which China agreed when it joined the WTO in 2001 is clear: A country cannot require foreign firms to transfer technology as a condition of doing business. Beijing says American companies are not forced to transfer technology but do so voluntarily because they want to do business in China. Washington and most American firms see this as extortion.

The threat of tariffs has caused China's major stock market to decline more than 25% since its high earlier this year. Chinese officials, clearly worried about the tariffs, are proposing policies they hope will satisfy the U.S. In my judgment, they don't come close to assuaging U.S. concerns.

The Chinese proposals start with an offer to buy large amounts of soybeans and other crops as well as natural gas, thereby reducing the bilateral U.S. trade deficit. It would be a mistake to accept this as a face-saving way to end the tariffs. The purpose of the tariffs is not to reduce the bilateral trade deficit but to counter Chinese technology theft and forced transfer.

China's response to the threat of U.S. tariffs also includes a promise to reduce its tariff on autos imported into China from 40% to 15%, a policy change that would mainly benefit German companies that make luxury cars in the U.S. In 2017, Mercedes-Benz and BMW models accounted for 80% of the cars among the top 10 models exported from the U.S. to China.

China has also said it will stop referring publicly to Made in China 2025 and to the numerical targets of China's projected share of the global market for particular products. And officials have made vague promises to change laws dealing with the theft of intellectual property and said that China would be willing to discuss U.S. complaints about China's lax protection. All of this is too little and too nebulous.

We don't know what Mr. Trump said to President Xi Jingping about China's behavior when the two had dinner after the Group of 20 meeting in Argentina. We do know what Vice President Mike Pence said in an October speech outlining the administration's China policy. "Through its Made in China 2025 policy, the Communist Party has set its sights on controlling 90% of the world's most advanced industries," he said. "Beijing has directed its bureaucrats and businesses to obtain American technology . . . by any means necessary."

We also know that the Federal Bureau of Investigation recently told Congress that the Chinese theft of American technology through the internet has become the greatest threat to American national security. That includes industrial technology and military technology being developed by private companies. Such behavior runs contrary to what Mr. Xi promised when he met President Obama in California in 2013.

American consumers and businesses are rightly worried about the effect of the proposed tariffs on prices in the U.S. Tariffs are a tax that will raise the cost of Chinese products to American buyers. Fortunately, the overall effect on the price level would be very small. The direct impact of a 25% tax on $200 billion of imports is only $50 billion. In a $20 trillion

economy, that is just 0.25% of total sales, hardly noticeable in the overall cost of living. Moreover, for those products with relatively large price increases, U.S. consumers and producers would shift to other suppliers, making the net impact even smaller.

It is unlikely that China will make enough policy changes in the next three months to satisfy the U.S. and avoid the tariffs. Looking ahead, the U.S. could impose heavier tariffs and other economic penalties in order to force China to play by the rules, ending its attempt to dominate global markets through subsidies and technology theft.

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