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# COMMENTARY: China tries to hide illegal trade practices as tariffs hit

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Guest commentary

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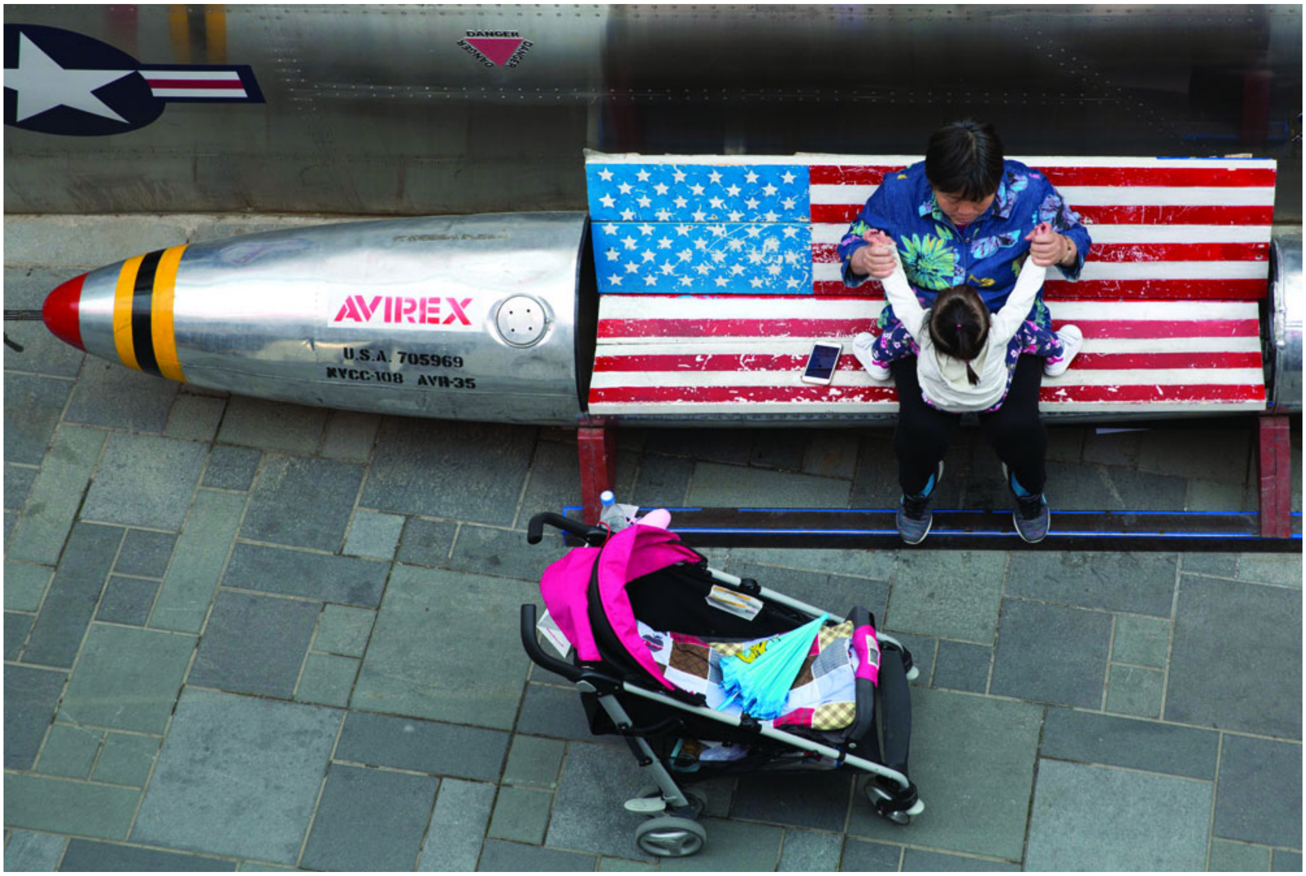


A woman tends to a child near a promotional gimmick in the form of a bomb and the U.S. flag outside a U.S. apparel shop in Beijing on April 12. China's options to retaliate in an escalating trade dispute with Washington go beyond matching U.S. tariff hikes to targeting American companies and government debt. Its state-dominated economy gives regulators tools to hamper sales of engineering, shipping and other services — an area in which the United States runs a trade surplus — and to disrupt operations for automakers, restaurant chains and other American businesses in China. (Photo/Ng Han Guan/AP)

As President Trump imposes new tariffs on Chinese exports, Beijing is countering with a public relations offensive. In a recent "white paper," China's State Council argued that any trade dispute is entirely the fault of the US.

Beijing claims that it absolutely plays by the rules of the World Trade Organization, and doesn't hack other nations' intellectual property.

One shouldn't expect less of China's autocratic regime. After racking up trillions of dollars in trade surpluses with the United States over the past few decades, it would indeed be surprising if Beijing admitted to any faults, or chose to abandon its winning strategy.

But facts are stubborn things. When China joined the WTO in 2001, it promised to move to a market economy and to compete on a free-market basis with advanced nations. President Bill Clinton promoted China's WTO accession, saying it would make them "more like us."

That never happened. The Coalition for a Prosperous America has identified many instances where China is supporting and protecting its own industries with government subsidies and preferential treatment.



And as researchers Usha and George Haley have documented, China took entry into the WTO as the beginning of an opportunity for "aggressively subsidizing targeted industries in order to dominate global markets."

The Haleys found $27 billion in energy subsidies that China's steel industry received between 2000 and 2007, making it the world's No. 1 steel producer. Similarly, China's paper industry received $33 billion in government subsidies.

Such massive subsidies vastly expanded China's economy. And while US consumers often assume that China's manufacturing advantage comes from cheap labor, the Haleys found that labor amounted to "between 2 percent and 7 percent of production costs" for such key industries as solar, steel, glass, paper, and auto parts.

Yet China routinely sold such goods for "25 percent to 30 percent less than those from the U.S. or the European Union," thanks to industrial subsidies, a currency manipulated to below-market levels, and import controls.

All of this flies in the face of China's WTO obligations, with Beijing having promised to halt the deliberation undervaluation of its currency. Similarly, the multi-billion dollar subsidies that Beijing doles out to its state-owned enterprises remain actionable under WTO rules.

Essentially, the Chinese government chose to specialize in what they believed would make China a superpower, and they've shown remarkable success in transforming a desperately poor, backward dictatorship into the world's No. 2 economic power.

None of this is acknowledged in China's recent white paper, however. Nor does China admit to hacking, intellectual property theft, or forced technology transfer.

American multinational companies often voluntarily enter into agreements to set up joint ventures in China. But the price of doing business is the transfer of technology to Chinese "partners."

Such deals provide only short-term benefit before China has sucked out all the relevant technology — and begins favoring its own suppliers. The European Chamber of Commerce in China has become increasingly concerned about this coerced technology transfer, stating: "foreign companies are often pushed to transfer technology as the price of market entry, which is in contravention of (China's) commitments as a member of the World Trade Organization."

Finally, there are China's illegal forms of technology transfer, including industrial espionage, reverse engineering, and evasion of US export control laws. A June report by the White House identified 27 different techniques by which China's economic aggression threatens US intellectual property.

It's estimated that cyber-espionage costs U.S. industry an astonishing $400 billion per year, with 90 percent originating in China.

China doesn't appear to have modified its behavior since President Donald Trump took a more aggressive tone on trade. And Beijing's claims of fair play cannot whitewash such self-serving behavior. The U.S. and China are heading towards economic disengagement unless Beijing modifies its behavior. If that happens, China will be the loser.

*Jeff Ferry is the research director of the Coalition for a Prosperous America.*

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