

# China Deserves Donald Trump

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A U.S. businessman friend of mine who works in China remarked to me recently that Donald Trump is not the American president America deserves, but he sure is the American president China deserves.

Trump's instinct that America needs to rebalance its trade relationship with Beijing — before China gets too big to compromise — is correct. And it took a human wrecking ball like Trump to get China's attention. But now that we have it, both countries need to recognize just how pivotal this moment is.

The original U.S.-China opening back in the 1970s defined our restored trade ties, which were limited. When we let China join the World Trade Organization in 2001, it propelled China into a trading powerhouse under rules that still gave China lots of concessions as a developing economy.

This new negotiation will define how the U.S. and China relate as economic peers, competing for the same 21st-century industries, at a time when our markets are totally intertwined. So this is no ordinary trade dispute. This is the big one.

For it to end well, Trump will have to stop with his juvenile taunting of China on Twitter (and talking about how trade wars are "easy" to win) and quietly forge the best re-balancing deal we can get — we probably can't fix everything at once — and move on, without stumbling unthinkingly into a forever tariff war.

And China's president, Xi Jinping, will have to recognize that China can no longer enjoy the trading privileges it has had over the last 40 years, so he'd be wise to curb his nationalistic "no-one-tells-China-what-to-do" bluster and look for the best win-win deal he can get. Because Beijing can't afford America and others shifting their manufacturing to "ABC," Anywhere-But-China, supply chains.

Here is how we got here: Since the 1970s, the U.S.-China trade relationship has been pretty constant: We bought China's toys, T-shirts, tennis shoes, machine tools and solar panels, and it bought our soybeans, beef and Boeings.

And when the trade balance got too out of whack — because China grew not only by hard work, by building smart infrastructure and by educating its people, but also by forcing technology transfers from U.S. companies, subsidizing its own companies, maintaining high tariffs, ignoring W.T.O. rulings and stealing intellectual property — Beijing placated us by buying more Boeings, beef and soybeans.

China kept insisting it was still “a poor developing country” that needed extra protection long after it had become the world’s largest manufacturer by far. Nevertheless, the relationship worked for enough U.S. companies enough of the time that the world’s biggest incumbent superpower, America, accommodated and effectively facilitated the rise of the world’s next largest superpower, China. And together they made globalization more pervasive and the world more prosperous.

And then some changes too big to ignore set in. First, China under Xi announced a “Made in China 2025” modernization plan, promising subsidies to make China’s private and state-owned companies the world leaders in supercomputing, A.I., new materials, 3-D printing, facial-recognition software, robotics, electric cars, autonomous vehicles, 5G wireless and advanced microchips.

This was a natural move for a China aiming to leap out of the middle-income ranks and to reduce its dependency on the West for high-tech. But all these new industries compete directly with America’s best companies.

As a result, all China’s subsidies, protectionism, cheating on trade rules, forced technology transfers and stealing of intellectual property since the 1970s became a much greater threat. If the U.S. and Europe allowed China to continue operating by the same formula that it had used to grow from poverty to compete for all the industries of the future, we’d be crazy. Trump is right about that.

Where he is wrong is that trade is not like war. Unlike war, it can be a win-win proposition. Alibaba, UnionPay, Baidu and Tencent and Google, Amazon, Facebook and Visa can all win at the same time — and they have been. I’m not sure Trump understands that.

But I’m not sure Xi does, either. We have to let China win fair and square where its companies are better, but it has to be ready to lose fair and square, too. Who can say how much more prosperous Google and Amazon would be today if they had been able to operate as freely in China as Alibaba and Tencent can operate in America?

And how much money did China save — to subsidize its own companies — when its military stole the plans for Lockheed Martin’s F-35 stealth fighter and then made its own carbon copy, avoiding all the R & D costs?

I repeat: Trade can be win-win, but the winning shares can be distorted when one side is working hard and cheating at the same time. We could look the other way when trade was just about toys and solar panels, but when it’s about F-35s and 5G telecommunications, that’s not smart.

But that’s not all that is new and problematic. We now live in the age of “dual use.” In a dual-use world, “everything that makes us powerful and prosperous also makes us vulnerable,” noted John Arquilla, one of the top strategists at the Naval Postgraduate School.

In particular, 5G equipment like that made by China's Huawei, which can transfer data and voices at hyperspeed, can also serve as an espionage platform, if China's intelligence services exercise their right under Chinese law to demand access.

Indeed, the controversy around Huawei shines a spotlight on this whole new moment: Huawei increasingly dominates the global market for 5G infrastructure, which used to be controlled by Ericsson and Nokia. America's Qualcomm is both a supplier of chips and software to Huawei and a global competitor.

But the Chinese government has curbed competition against Huawei in China — by both foreign and Chinese companies — to enable Huawei to grow bigger, more quickly and cheaply. Huawei then uses that clout and pricing power to undercut Western telecoms and then uses its rising global market dominance to set the next generation of global 5G telecom standards around its own technologies, not those of Qualcomm or Sweden's Ericsson.

Moreover, in a dual-use world, you have to worry that if you have a Huawei chatbot in your home, an equivalent of Amazon's Echo, you could also be talking to Chinese military intelligence.

In the old days, when we were just buying China's tennis shoes and solar panels and it our soybeans and Boeings, who cared if the Chinese were Communists, Maoists, socialists — or cheats? But when Huawei is competing on the next generation of 5G telecom with Qualcomm, AT&T and Verizon — and 5G will become the new backbone of digital commerce, communication, health care, transportation and education — values matter, differences in values matters, a modicum of trust matters and the rule of law matters. This is especially true when 5G technologies and standards, once embedded in a country, become very hard to displace.

And then add one more thing: The gap in values and trust between us and China is widening, not narrowing. For decades, America and Europe tolerated a certain amount of cheating from China on trade, because they assumed that as China became more prosperous — thanks to trade and capitalist reforms — it would also become more open politically. That was happening until about a decade ago.

For the last decade, though, said James McGregor, one of the most knowledgeable U.S. business consultants in China and a longtime resident there, it's been clear that Beijing, instead of "reforming and opening, has been reforming and closing."

Instead of China getting richer and becoming more of a responsible stakeholder in globalization, it was getting richer and militarizing islands in the South China Sea to push the U.S. out. And it was using high-tech tools, like facial recognition, to become more efficient at authoritarian control, not less.

All of this is now coming to a head in these trade talks. Either the U.S. and China find a way to build greater trust — so globalization can continue apace and we can grow together in this new era — or they won't. In which case, globalization will start to fracture, and we'll both be poorer for it.

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