'Made in China' Does Not Harm the U.S. Economy

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Abstract. In the news article The Price of 'Made in China', Navarro argues against the behavior of purchasing goods from China, complaining that importing Chinese goods does harm to the U.S economy. In this paper, I will argue against Navarro's statement about the U.S. and China, as to China's inferior products, governmental subsidized industries, manipulation of currency, and the cliché "dumping" arguments. Based on the aforementioned discussion, a conclusion is drawn at the end of this paper, which clarifies the actual logic behind the biased statement made by Navarro and proves that Chinese products will not harm the U.S. economy.

Introduction

In the news article The Price of 'Made in China', Navarro argues against the behavior of purchasing goods from China, complaining that importing Chinese goods does harm to the U.S economy. In this paper, I will argue against Navarro's statement about the U.S. and China, as to China's inferior products, governmental subsidized industries, manipulation of currency, and the cliché "dumping" arguments.

Examination of Navarro's argument

Quality Discussion

By introducing an example of buying steel that made in China for building bridges in New York City and San Francisco, which contained additional costs and drew the concern of safety issues, Navarro complains about the inferiority of the materials that produced in China due to the low price. This is the first part of this article that I disagree on.

It is true that in order to obtain cheaper products, one has to give up the expectation of relatively high quality. But such principle does not mean that cheaper products are doomed to be in low quality. With the increasing productivity, and favorable regulations that provide cheaper costs, the industry will be able to cut down the unnecessary price gap for a more competitive position in global market. China is one example of this case. It is able to export cheaper products not only because of the cheap cost, but also for its productivity. In the aforementioned case that Navarro argues, he simply blames China for its poor quality products, which delayed the project of San Francisco-Oakland Bay Bridge, but he ignores that fact that the United States is the one who is willing to buy such products together with the risk of worse than expected quality, and to push the demand for them. It is a mutual agreement that the United States would like to take the risk, and neither of the both sides (China and the United States) suffers from unfair trade.

Government Subsidy

Apart from the complaints about the inferior building materials, Navarro also addresses that Chinese "steel production is heavily subsidized by the Chinese government" and "these subsidies range from the massive benefits of a manipulated and undervalued currency to the underwriting of the costs of energy, land, loans and water" (Navarro, 2013).

Navarro overstates the role of the government in global market. He presumes that governmental subsidy is the main cause of the cheap products, ignoring the regulation of the market itself. I will argue against this argument in two main aspects, one is governmental subsidies, the other one is artificially manipulating currency.

It is an era of free trade, at least it is heading towards to. Therefore, it is easy to understand such logic: if China could take measures to subsidize its export industry, so could the government in the United States. If Chinese government draws up new regulations in favor of export industries, lowering down the taxes, offering cheaper locations and wage standard for such industries, the American government can also do that. The problem is that American government dares not to take measures to subsidize its industry for the fear of the cost of cutting wages for labors, reducing revenues from taxes, which will further bring in social problems like strikes and imbalance of domestic economy. Moreover, manipulating currency is not the only way to subsidize the industry. Navarro believes that governmental subsidy to the export industries in China is a harmful thing. But the so-called "subsidies" are just favorable regulations that cut down the cost of production as much as possible for future development of domestic industry, which is a normal governmental support but not harmful or evil.

Currency Manipulation

Another complaint that Navarro makes that China artificially manipulates and undervalues its currency is not reasonable. First, if China plans to undervalue its currency by increasing the supply of money to the market, it should be facing the accompanying troubles with inflation. Such inflation will cause an increase in the price level of the goods that Chinese people used to buy with lower price. Such inflation will cause a unstable domestic economy in China, which is much worse than the consequences of reducing exports to the United States. And the Americans will be the one who finally buy for the inflation in China for the increasing price of products that exported to the United States. Second, manipulating and undervaluing currency is not plausible in the long run. Exchange rate has a very complex process, it will be extremely hard for Chinese government to keep Chinese Yuan remain less valuable against U.S dollar, let alone manipulating the value of Chinese Yuan for a long time. In addition, increasing value of Chinese currency does not good to American economy. Since the United States is now specialized in service sectors, and the value of Chinese currency will not increase dramatically overnight, Chinese products are still the main sources that Americans consume everyday, the increasing value of Chinese currency also means the same amount of US dollar can buy less goods from China. This is not the thing that the American consumers would like to see. What China is doing is just to maintain the value of Chinese Yuan for a more stable financial environment, in the fear of unstable policies that made by other foreign countries will harm the economy at home.

Discussion

Consistent with the majority of the economists, and politicians who regard China as a threat to U.S. economy, Navarro believes that China is "dumping" steel into American markets and causes American job lost. Such argument is so arrogant and discriminative. The reasons are as follows.

First, the U.S may have dyadic trade deficit when trade with China. However, the U.S do not only trade with China, instead, the trade system is multilateral. When the U.S has trade deficit due to China's cheap exports, U.S still get trade surplus from other countries, especially in hi-tech and cyber industries.

Second, China's cheap exports to the U.S is not "dumping" or predatory pricing. Many scholars and politicians argue that China is selling their cheap products to the U.S. under the cost of production, which should be considered as predatory pricing. This is far from true. "Predatory pricing" is a strategy for monopolize the whole industry. China will be too stupid to choose to use this strategy to monopolize because it cost too much. New industries are born and developed every minute throughout the globe, it will be too difficult and nearly impossible for China to monopolize in the world. And it is ridiculous that those scholars say that the price of Chinese products is below cost. Let alone the exchange rate of Chinese Yuan that changes constantly, which affects the cash value of certain products that sold in China and in the U.S, those who believe in the predatory pricing and dumping ignore the fact that the domestic economy environment that determines the cost of production. China has cheaper labor, government's pro-market policies that encourage export industries, which lower the cost of production in China. Moreover, cheaper and more labor as well as newly invested machinery make the export industry much more efficient in producing certain kinds of products, finally enable the export industry to lower their prices. This cannot be taken into account for the so-called "price below cost".

Moreover, the Chinese cheap exports to the U.S do not damage the U.S. economy. Actually it shifts the U.S labor to a more service-oriented industry. The U.S is the financial center of the globe, there are numerous financial service and institutes rising, demanding more workers. The U.S does experience the unemployment in the manufacture industries, but on the contrary, the rising employment in service-oriented and high-end industries compensate for the loss. Also, the money that Chinese businessmen earn profits by selling cheap products to the U.S. is actual U.S dollar, which will in turn goes back to the U.S. The capital account of the U.S. is rising because those U.S. dollar will reappear as foreign investment in real estate, stock market, company ownership, and some other forms.

Conclusion

The most significant thing that should be paid attention to is to avoid one-sided overview of the U.S-China relation. Everything is connected in the global market, a slight change of exchange rate is related to an extremely complex changes behind it like the domestic employment, economical environment, etc. So it is too narrow-minded to only stress the negative effect of one single chain of the whole economy, and to say that purchasing goods that are “made in China” is costly because the United States is also benefiting from the trade, in other forms. “Made in China” does not harm the U.S. economy.

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