2015 STOA BLUE BOOK – Case Summaries

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1. Aargh: The Case for WTO Retaliation for Chinese Cyber Piracy

This case argues that American companies are being targeted and victimized on a broad scale by a deliberate policy of the Chinese government to use internet hacking to steal intellectual property. Corporations expend vast sums on highly-trained employees and research facilities in order to develop new technologies. Patents and copyrights on those inventions protect a company’s right to profit from the fruits of their labors. When someone copies an advanced technology and begins producing the same product, with none of the research costs, the company that developed it may quickly be put out of business by the cheaper competitor’s product that appears suddenly on the market. Not only does it harm the targeted company, but it damages the economy as a whole by creating disincentives for research and investment. Why bother to do all that work if it’s just going to be pirated by someone else and you will never profit from it?

Recently the US Dept. of Justice indicted five members of the Chinese Army for cyber industrial espionage. Investigators were able to trace back hacking of US businesses to computers in China. While those five individuals are unlikely ever to be brought to the US and prosecuted, the fact that the Chinese Army has been caught red-handed proves it’s a deliberate policy of the Chinese government, not rogue individuals. We need to take stronger steps that will go directly to the source of the problem by directly going after the Chinese government.

The WTO (World Trade Organization) has dispute settlement mechanisms that allow a country to lodge a complaint against a fellow-WTO member they believe has committed some unfair trade practice. This plan takes the advice of experts who advocate that the US government should file a complaint with the WTO and provide the evidence that China is committing the unfair trade practice of government-sponsored industrial espionage. Experts say pressure from WTO would motivate China to change its ways, because the US would likely win the case and would then be authorized to impose trade sanctions against China.

Negatives will argue that Chinese cyber hacking really doesn’t have much impact. For example, even if someone in China steals a bunch of data or charts in English on advanced technology they don’t have, what would they do with it? They don’t have the capacity to just start making such products the next day, and they might never really be able to do anything with it at all.

After the Snowden revelations of US spying, it’s hard to argue that the United States is an innocent victim of other countries’ electronic espionage. Maybe we need to clean up our own house first.

In addition, the WTO mechanism is the wrong forum to resolve issues of espionage. It probably would take too long, if it even worked at all. Meanwhile, the damage to US-China relations would cause much bigger problems.

1. It’s A Gas: The Case for Exporting LNG to Japan

The 2011 tsunami and earthquake in Japan resulted in a re-evaluation of their nuclear energy policy after the Fukushima reactor meltdown. Japanese demand for natural gas to replace nuclear energy is climbing and the U.S. is a big producer. The solution ought to be easy: export US gas to Japan. But nothing is easy in the world of politics and energy.

Natural gas is often exported and imported on world markets in the form of LNG, Liquefied Natural Gas, which is cooled to extremely low temperatures and compressed into storage tanks, then sent by ship. There are wide variations around the world in the local price of natural gas, so producers often find it profitable to export from a low cost market and send it to a higher cost market. Right now the US is a low-cost market for gas because of the entry of gas on a massive scale into the US economy thanks to hydraulic fracturing, or “fracking,” in the last few years. As more and more of that gas keeps entering the US market, prices keep dropping.

Why aren’t we exporting it to Japan to reap the extra profits such sales could provide? Because an old law dating back to the 1930s requires exporters to get federal government permission before exporting natural gas. Right now there are lots of applications pending to allow exports of LNG to Japan, but they’re sitting on someone’s desk in Washington waiting for approval that may never come. This plan argues that there are substantial economic benefits to both countries by approving all US exports of LNG to Japan.

Negatives will argue that simple supply and demand shows why this is a bad idea. If the gas is exported from the US, supplies will drop, and therefor prices rise, within the US. In addition to the impact on poor folks trying to heat their homes, think about the numerous businesses that have sprung up in the last few years taking advantage of low US natural gas prices. Those businesses will evaporate if their reason for existence, the market advantage that led them to locate in the US, is exported away.

1. The Buck Stops Here: The Case for Stopping Currency Manipulation

The relative value of a nation’s currency compared to other currencies can have a substantial effect on its foreign trade. When a national currency is devalued compared to the US dollar, Americans importing from that country suddenly find that imported goods are cheaper, since a US dollar now buys more of their currency. Simultaneously, US exporters find it harder to compete, since their products are suddenly more expensive, because each US dollar costs more units of the foreign currency. Currency devaluation can thus have the effect of increasing the devaluing nation’s exports and reducing their imports.

Many currencies trade openly on free world markets and their values are determined by millions of transactions that take place across the globe by individuals, corporations and, sometimes, by governments. It’s that latter category that is worrisome because when a government begins engaging in currency transactions, it may be for the nefarious purpose of manipulating their country’s currency value. Experts say China and Japan are the world’s two biggest offenders, often intervening in the markets in ways that would stop their currency’s value from rising, or even helping to drive it down artificially. Their goal is to increase exports (i.e., jobs in their own manufacturing sectors) and reduce imports (and thus deny opportunities to American companies that would have sent goods to their markets). The impact is millions of American jobs lost, as US companies (whose prices and expenses are measured in dollars) are priced out of the market by artificially manipulated currency values.

This plan takes the recommendations of experts who say the US should officially label China and Japan as currency manipulators under existing US law. The law already exists, but the Obama Administration has not invoked it against China nor Japan. This would open the door for negotiations and possible sanctions against them to help motivate them to correct their behavior. The US should also impose tariffs on goods imported from these countries, with the tariff rates set at a value sufficient to exactly offset the value of the currency manipulation. For example, if currency manipulation makes Japanese cars 10% cheaper, we impose a tariff of 10% to cancel out the effect. And finally, the US Treasury Department establishes a policy of reverse currency intervention. We watch the markets, and every time they take any government action that affects their currency value, we buy or sell currency in exactly the same quantity in the opposite direction. Currency markets would then realize a net zero effect to every currency manipulation, since each one would be canceled out by an equivalent amount being bought or sold by the US.

Negatives will argue first that recent currency trends show China and Japan are not now manipulating their currencies. Any problems in the US economy must stem from some other source. In fact, even if they were manipulating, many economists believe the impact of currency valuation on trade balances is minimal, so even if we successfully stopped it, the US economy wouldn’t benefit much. Some economists are argue that the US manufacturing sector is doing just fine in the status quo, so there is no problem to solve anyway.

And sanctioning China and Japan would certainly not be well received. They could retaliate against us at the WTO and impose sanctions of their own. They could also reduce or stop purchases of US Treasury debt, driving up federal borrowing costs, raising interest rates, and damaging the economy. In the long run, we’d probably suffer more damage by this plan than it would solve.

1. Control Freaks: The Case for Relaxing China Export Controls

Cold War era restrictions on the export of high-technology items were originally intended to improve America's security by avoiding technological assistance to our real or potential enemies. These restrictions, known as “export controls,” block the export of certain items, many of which are not weapons at all, to countries that are potentially threatening to the U.S. China is one of the biggest targets of our export controls.

This case argues that U.S. companies are unfairly disadvantaged in world markets because they can’t sell things to China that other advanced countries, like Britain and France, can sell them. Since China will get the same things no matter what, strict export controls don’t make sense except in a very few limited cases. Most of the time we are merely punishing ourselves, not harming China in any way.

Export controls are directed at items often referred to as “dual use” items. These are products that are not specifically military items nor weapons themselves, but which could conceivably be used to enhance the target country’s military capabilities. Before exporting such items or sharing such technology with China, US companies must apply for and receive permission from the US federal government. For example, a US company recently tried to export a large supercomputer to China, but the government stopped the export under the “dual use” export control rules.

Negatives will argue that export controls serve a valuable purpose in denying an adversarial country the capability to enhance their military capabilities and potentially use our own technology against us in some future conflict. If export controls have no effect on China’s ability to procure foreign technology, a Negative would ask, then why does China so frequently complain about the export controls? Why would they matter if China was successfully bypassing them all the time?

Negatives will also argue that the actual percentage and dollar value of trade denied by export controls is already minimal. Maybe export controls denied a lot of trade 20 years ago, but things have changed since then. Reforms are already underway and the problem has mostly been solved.

1. Game Over: The Case for Ending the China Arms Embargo

Ever since the 1989 Tiananmen Square massacre, when the Chinese government brutally suppressed peaceful pro-democracy demonstrators in Beijing, the US has had an embargo on the sale of military items to China. Likewise, the European Union enacted a similar embargo at the same time for the same reason, as a means of protesting and pressuring China to improve its respect for human rights. In recent years, the EU has considered lifting its embargo, only to be pressured by US diplomacy to maintain it.

Even if the embargo exists on paper, some EU countries (e.g. Britain, France, and Germany) have found ways around it. They sometimes simply say that the hardware they export to China is not really “military.” Whatever the excuse, many experts say the EU embargo is hardly effective. Why does it matter? It means the US is losing a lot of business we could have if we stopped pretending that the embargo policy were effective, and simply dropped it.

Negatives will argue that the embargo is effective, and that its continued existence is an important diplomatic tool to be used to influence China to improve its human rights behavior. Human rights should take priority over our export sales – it’s too important a value to sacrifice for a few dollars.

1. Black Gold: The Case for Exporting Oil to South Korea

Back in the dark days of the Arab oil embargo and the oil shortages and crises of the 1970s, Congress in its infinite wisdom passed a law that they thought would help: a ban on exports of crude oil produced in the United States. The idea was that this oil should be required to stay in this country to relieve shortages.

No one knows if Congress ever truly grasped the root cause of the shortages, but the problem of oil shortages in the US went away for good in 1981 when Pres. Reagan abolished all remaining price controls on crude oil in the United States. The distortions and disruptions that blocked markets from working efficiently immediately disappeared. While we’ve had periods of higher and lower prices since then, we’ve never gone back to the “oil crisis” mentality or shortage curse since then.

But the old 1970s law against exports of crude oil (with a very few exceptions) is still on the books. And now, as US production of crude oil is booming again, thanks to fracking, it’s blocking exports just at a time when America could reap a bonanza of cash. Confining all that oil within the US is useless because it merely stacks up at refineries waiting its turn to be processed into usable products. Meanwhile, the South Korean government has publicly requested that America lift its export ban and allow them to buy our crude oil for their refineries, which is exactly what the Plan does. South Korea gets cheaper oil and Americans get lots of money. Demand for US oil goes up, supporting the new oil production jobs that are at risk during price downturns, when marginal oil production facilities and exploration could be shut down. This Affirmative plan is a win-win for everyone.

Negatives argue that there’s someone who doesn’t win: US consumers. Excess supplies of US oil kept within the US follow the law of supply and demand. When supply is great, price comes down. US gasoline is cheaper today than it would be without the export ban, putting millions of dollars into the pockets of ordinary Americans who surely need that money a lot more than any big oil company does.

Negatives also argue that there are enough loopholes in the crude oil export ban that the Status Quo can export oil to South Korea if they really want to. In fact, to some extent, taking advantage of those loopholes, they already do.

1. Fair Fight: The Case for Combating Chinese Mercantilism

According to Encyclopedia Britannica, “mercantilism” is an “economic theory and practice common in Europe from the 16th to the 18th century that promoted governmental regulation of a nation’s [economy](http://www.britannica.com/topic/economy) for the purpose of augmenting state power at the expense of rival national powers.” While Europe gave up on it centuries ago, it is today the official foreign trade policy of China. Mercantilism involves maximizing exports and minimizing imports at any cost, under the theory that exports create jobs and build the economy, while imports strengthen competitive rivals. It also means that pure and fair market competition is not enough to win; the government must actively intervene to aid its home-country businesses and take action to cripple their foreign competitors.

Mercantilist policies in China include government subsidies to domestic manufacturers, to allow them to sell goods abroad at a lower than market price. They include trade policies that put up barriers to imports from foreign companies wanting to sell in China. And they include government dictating to foreign companies that they must transfer their trade secrets and technology to Chinese firms (IPR, or intellectual property rights) before they will be allowed to do business in China.

This plan makes it US policy to fight back against Chinese mercantilism in three ways. First, a 40% tax credit that acts as a subsidy for any company who is being harmed by Chinese trade rule violations, to offset their expenses for filing a complaint with the WTO. Some US companies would like to file formal complaints, and get sanctions authorized by WTO, but the time and expense makes it not worth their effort. A tax credit solves that barrier.

Second, mandatory WTO complaints. The US Trade Representative will file a case against China at the WTO for every single trade rule violation. Right now, companies sometimes don’t complain or don’t ask USTR to complain, because they are afraid of backlash from the Chinese government. But in the long run, if we roll over and play dead to China’s frequent rule violations, then the rules won’t mean anything. If we take a stand, China will be more likely to back down and start respecting the rules.

Third, an anti-trust exemption for US business to allow them to collude together only for the purpose of resisting Chinese pressure on IPR transfers. Anti-trust laws are laws against competing businesses from joining together and forming coalitions or monopolies to artificially raise prices above what a competitive market would support. For example, imagine if all the gas station owners in town held a meeting and decided what price to charge for gasoline, rather than competing with each other. This would be illegal under federal law.

The plan makes an IPR exemption in federal law for companies doing business in China. The exemption is that the businesses could all agree together that none of them will sign any contract to do business in China that would require them to compromise their IPR. While this type of collusion would normally be illegal, it is justified and necessary in this case in order to protect businesses from the fear that if they don’t hand over their IPR, one of their competitors will do so and get all the Chinese market. This might help the competitor in the short run, but in the long run, the entire market will be damaged by such behavior, and the anti-trust exemption gives companies a way to resist Chinese IPR coercion, safe in the knowledge that no competitor will gain an advantage by compromising IPR.

Negatives will have several lines of response. First, they will argue that the Status Quo is already combating abusive Chinese trade practices. We’re already taking cases to WTO today. And China is already backing off from its IPR policies today. Peaceful diplomacy rather than harsh rhetoric and threats of sanction are better ways to solve, and that’s what the Status Quo is doing. Besides, the WTO is slow, inefficient, and unlikely to solve.

Next, there’s not really any problem to be solved. US businesses are making lots of money in China. And IPR is a myth anyway: you can’t claim exclusive ownership over an idea, the way you can with a car. Ideas should be free to be used by anyone who learns them, as a matter of human right.

And the disadvantages of antagonizing China will outweigh any possible benefit. The plan could trigger a trade war that would harm US consumers and benefit no one.

1. Promises to Keep: The Case for Ending Taiwan Arms Sales

In 1982, Pres. Reagan was trying to mend US/China relations. He negotiated with China and they agreed on a document known today as the 1982 Communiqué (pronounced kom-U-nick-ay). Reagan promised China that US arms sales to China would decrease over time and ultimately be abolished. This is a key issue to China, since they view Taiwan as an integral part of their country, yet ruled by an independent government that they believe has no right to its own military and foreign policy. To China, US arms sales to Taiwan disrespect the territorial integrity and sovereignty of China, and break a promise we made that was supposed to improve US/China relations.

One of the problems with the Communiqué is that it runs against another US policy, the 1979 Taiwan Relations Act. The TRA was passed by Congress right after Pres. Carter recognized the mainland as the sole government of China and unrecognized Taiwan as the government of China. TRA says the US continues to have an obligation to support and sell arms to Taiwan, even if we don’t recognize them as the official Chinese government.

As China grows in economic and military power, it becomes more and more difficult to imagine how the tiny island of Taiwan could withstand an onslaught if China really decided they wanted to take the island back by force. Affirmatives will argue that no matter how many weapons we sell them, it won’t make any military difference in the end. All we’re achieving is antagonizing China for no actual strategic benefit.

Negatives will argue that arms sales to Taiwan can and will make the difference in the island’s defenses. We have a moral obligation to make that difference and to protect Taiwan, because it’s key to restraining the expansionist and aggressive impulses of China.

1. Under the Sea: The Case for Exporting Submarine Technology to Taiwan

Taiwan is a small island with a democratically elected government, facing down the big one-party dictatorship of the People’s Republic of China that claims to own it. While Taiwan maintains a fragile de facto independence, its survival depends on being able to deter a Chinese attack from the mainland that may come someday to reunify the two sides by force. Taiwan asked the G.W. Bush administration for help acquiring or producing eight diesel submarines. The subs would be useful as defense against transport ships and landing craft China could use to invade the island. The Bush administration delayed, postponed and ignored the request, and now the Obama administration has done the same. The request is still pending, and some experts say submarines are Taiwan’s most urgent need.

When the US declined to sell submarines to Taiwan, the Taiwanese government set out to build their own indigenous submarines. Only one problem with that: They don’t have the technology to do it. They can make many of the components, but some submarine components are beyond their capabilities and must be imported. Since most other countries don’t trade military equipment with Taiwan (out of respect for mainland China), the US is the only hope Taiwan has for obtaining the key technological ingredients to build diesel subs. This plan lifts the barriers and allows the sale to Taiwan of anything they need to build diesel submarines.

Negatives will run many of the same arguments recycled from the Affirmative case for canceling arms sales to Taiwan. At some point China’s military power compared to Taiwan will be so overwhelming that no amount of arms sales could save the island. We would be antagonizing China for no actual strategic benefit. Some experts say the subs would not provide any significant military benefit. Others point out that the subs are too expensive for Taiwan’s budget, so the whole indigenous submarine plan will never come to completion anyway.

1. Go Your Own Way: The Case for Repealing KORUS FTA

Signed 8 years ago and taking effect in 2012, the South Korea/US free trade agreement (sometimes called KORUS) was supposed to improve the economies of both countries. Three years later, the results are in, and this case argues that the experiment has failed.

Free trade agreements (FTAs) seek to lower trade barriers to increase the volume of trade between the countries involved. But in this case, the results have been lopsided. South Korean industry has benefited greatly by being able to export much to the US, boosting the South Korean economy and job growth. By contrast, US industries have seen little benefit – in fact, some have shut down in the fact of increased import competition from Korea. We need to reverse the trend toward job-killing FTAs by starting with the US dropping out of KORUS.

Much of this debate boils down to classic arguments about whether FTAs are good or bad. Negatives will argue that, in fact, KORUS has been net beneficial to the US economy. The numbers claiming job losses are inaccurate and misleading. The latest numbers show economic benefit from KORUS. Withdrawing from engagement with S. Korea would lead our East Asian allies to move away from us and closer to China, with bad foreign policy consequences.

1. Let’s Trade: Free Trade Agreement with Taiwan

Taiwan has been asking the US for years to engage in a Free Trade Agreement. The US has delayed and ignored the request, but it’s time now to act on it. A prosperous future depends on open borders and economic freedom. Free trade, not protectionism, promotes economic growth, lower prices, better products, more jobs, and new markets.

This case, like KORUS above, largely revolves around the classic arguments over whether free trade agreements are good or bad. The Affirmative in this case does not fiat that Taiwan will accept the FTA, because it would be untopical (we can’t change Taiwan’s foreign trade policies, only US trade policies), and because it’s unnecessary. Taiwan has already said they would accept.

If Free Trade Agreements increase economic activity and lower prices for consumers, then this one should provide those benefits as well, and the Affirmative will win. If FTAs outsource American manufacturing jobs to lower-cost factories overseas, then this one will cause those disadvantages too, and the Negative will win.

1. Here Comes the Sun: The Case for Ending Tariffs on Chinese Solar Energy Equipment

China is a big producer and exporter of solar energy panels. Many of those panels are intended for export to the United States. But the US government has imposed high tariff rates on Chinese solar equipment, responding to a complaint by a German company operating a solar panel manufacturing plant in the US. Their complaint is that China is subsidizing the solar industry, allowing Chinese panels to be exported to the US and sold for less than it costs to make them. The tariffs raise the price of the Chinese panels significantly.

The problem with this is that raising prices of the equipment needed to make solar energy affordable and widespread in America is a really bad policy. It slows the growth of solar energy, meaning we rely more on air polluting sources of energy instead. And for the few jobs we protect in the US solar manufacturing industry, we lose many more jobs that could be active in solar installation and maintenance businesses, since they are not installing all those cheap Chinese panels that people could have been buying. Consumers lose, installation businesses lose, and the environment loses. The Affirmative plan solves by lifting the tariffs.

Negatives will argue that the tariffs are not that big an impact on the price and are amply justified by Chinese government behavior. Demand for solar panels in the US is at an all time high, so it doesn’t seem to be hurting anything. Jobs in the US manufacturing sector are worth saving, and we need to take a stand against Chinese violations of trade rules.