

Principles for Effective and Improved U.S. Economic Engagement with China

The United States' economic relationship with China is critically important and complex. China's entry into the World Trade Organization in 2001 and participation in the global economy represented the culmination of years of effort to encourage China to adopt the rules of the global trading system that the United States helped to create. While the United States has enjoyed major economic gains from China's participation in the trading system, including greater access to China's market, it has also been challenged by China's rise as a major international economic player. In turn, many in the United States have concerns about the impact that globalization in general and trade with China in particular have on their jobs and economic security.

Constructive efforts to address American concerns and improve the U.S.-China economic relationship should be pursued vigorously and in a manner that effectively addresses core challenges. The following principles provide a framework to evaluate which proposals can best advance U.S. interests.

Principle One: Expand Access to China's Market through Growing Engagement.

Too often, the U.S.-Chinese economic relationship is portrayed as one-sided, with Chinese products out-competing those produced in the United States. Yet, China is also the United States' fastest-growing export market, growing 32 percent last year to \$55.2 billion in goods exports. China's tariffs have already dropped to an average applied rate of under 10 percent since joining the WTO, still higher than the United States, but substantially lower than many other countries around the world. This has meant substantial new access for U.S. farmers and manufacturers.

With 1.3 billion people, a growing middle class and one of the fastest growing economies in the world, China will continue to be one of the most important markets for decades to come, providing substantial economic opportunities to U.S. farmers, manufacturers, service providers and their workers. Maintaining and expanding U.S. access to China's market is, therefore, a vital part of any approach seeking to improve U.S.-Chinese economic relations.

While China has greatly expanded its exports to the United States during this same time, a substantial portion of that increase came at the expense of other foreign suppliers, which were displaced by China's exports to the U.S. market. Imports from China also have important benefits in terms of greater product choice and prices that benefit consumers and many manufacturers who compete in the global economy. The United States has a lot at stake in its economic relationship with China and policies must be formulated that advance, rather than undermine, America's access to China's market.

Principle Two: Lead by Example. China's full participation in the global trading system, including China's implementation of the rules of that system, is critical to promoting U.S. economic interests. It is also central to advancing the United States' broader interests in a stable and predictable global trading system, based on the rule of law and openness. While China has implemented many of its WTO commitments and gone beyond many other WTO members in certain areas such as tariff reduction, more work is required in a number of areas to level the playing field for U.S. farmers, manufacturers, and service providers.

To promote China's full compliance with these rules, however, the United States must lead by example and follow the rules-based WTO system it helped create. Adopting policies that contravene the United States' own international obligations or that improperly restrict access to the U.S. market sends a powerful message to the Chinese and other governments that they can do the same, resulting in new restrictions on U.S. farm and manufactured goods and services.

Several pending bills, such as those applying the countervailing duty or antidumping law to offset currency undervaluation, likely violate U.S. WTO obligations rules and would be counterproductive to U.S. economic interests.

Principle Three: Focus on Key Challenges. Congress has focused heavily on China's currency as perhaps the primary issue to be addressed in the U.S.-China economic relationship. While further progress on that issue is important, there are numerous other major issues of concern, such as the lack of full intellectual property protection, subsidies and trade-restrictive industrial policy, lack of transparency and market access restrictions. Indeed, given China's large and growing market, the most effective way to improve the U.S.-Chinese economic relationship is not by penalizing U.S. imports from China – which would also penalize many American consumers and business enterprises – but by focusing on ways to improve access for U.S. farm and manufactured goods and services in China's market. Issues, such as food and product safety, go far beyond China and broad-based solutions should be developed, rather than targeting a single country.

Principle Four: Create Effective Incentives for Progress. Like any nation, China has and will be able to move most quickly on issues that it views as important. For the United States, this means helping to create effective incentives for China's reform, including by:

- **Creating Competition.** Increased trade with other large markets in Asia creates healthy competition with China, and sends a message that while China may be tempted to promote economic nationalism and ignore some WTO requirements, other countries will not necessarily follow. Congress should support initiatives, such as the U.S.-Korea Free Trade Agreement and FTAs with others in the Asia-Pacific region, to bolster our relationship with other Asian nations.
- **Emphasizing Common Goals.** There is an increasing recognition in parts of China's private sector and government of the need for improved policies to promote the protection and enforcement of intellectual property rights, fair and competitive government procurement markets, financial reform and the protection of the environment. Increased U.S. technical assistance and other activities with interested stakeholders can help advance these and other common goals.
- **Doha Development Agenda.** Moving the Doha Development Agenda negotiations forward, rather than letting them languish, represents an important opportunity for spurring China to open its market further and undertake other critical reforms.

Principle Five: Use Bilateral, Regional and Multilateral Mechanisms Strategically. The United States has a variety of bilateral, regional and multilateral mechanisms to promote improvement in the U.S.-Chinese economic relationship.

Tools Being Used: The United States is already using a wide variety of mechanisms to address China's currency and other issues, such as intensive dialogue, technical assistance and multilateral mechanisms. Numerous antidumping cases have been brought to offset unfair pricing practices and 62 orders are already in place. China has allowed a partial float of its currency, which has appreciated nearly 10-percent since July 2005. The United States has also filed several major WTO cases against Chinese practices.

These following types of mechanisms should continue to be employed and, as appropriate, expanded:

- **Bilateral Dialogues.** Successive U.S. Administrations of both parties have established numerous government-to-government mechanisms, recognizing that more dialogue, rather than less, has proven effective in making progress on a variety of issues. For example, the JCCT, first established in 1983, provides a high-level forum to address more immediate trade frictions and promote bilateral commercial opportunities. While not every meeting has produced significant

progress, the JCCT has induced China to take additional steps to open its market to U.S. goods and services and is credited with moving China to begin by the end of this year formal negotiations to join the WTO Government Procurement Agreement. Just last year, the United States and China initiated the Strategic Economic Dialogue (SED) to focus on more medium- and long-term economic reform issues to improve the bilateral relationship, rather than immediate results. Numerous other dialogues exist on agricultural and other issues. While they may not produce many short-term results, they are critical to promote enduring reform and greater market access.

- **Regional and Multilateral Mechanisms.** Regional and multilateral mechanisms and fora, such as the International Monetary Fund (IMF), the Asia Pacific Economic Cooperation (APEC) forum and the WTO, can be used by the United States, working appropriately with other key trading partners, to make progress. The Doha negotiations, for example, could help improve significantly market access in China, but only if those negotiations are concluded successfully. Use of the WTO dispute-settlement mechanism also represents a highly useful tool, particularly when there are clear-cut violations that can be persuasively demonstrated on issues of importance in the relationship. It is even more effective when the United States can bring cases, as it is recently has, with the support of other major trading partners. While Congress must ensure that the Administration has the resources to investigate and bring appropriate cases, but it is important that the Administration, not the Congress, determine what cases should be brought, particularly given the complex legal and factual nature of these issues.
- **Improved Effectiveness of U.S. Diplomatic and Capacity-building Efforts.** Efforts to expand America's diplomatic infrastructure in China, boost funding for rule-of-law, language, student and teacher-exchange programs (such as recently proposed in the bipartisan U.S.-Competitiveness Agenda legislation) can be extraordinarily useful to address common issues. Unfortunately, the United States appears to be behind the curve, as the European Commission and others are already providing assistance with important results (such as China's draft Antimonopoly law which reflects several concepts from European, rather than U.S., competition law).

While unilateral action may be appropriate to remedy certain unfair practices, recent proposals to address China's currency undervaluation through unilateral measures are inappropriate and likely to be counterproductive. Despite the important role that multilateral fora such as the IMF play in regard to international currency and the lack of any accepted methodology for determining a fair currency for China, these bills unilaterally mandate not only the calculation of a "fair" currency rate for China, but also the use of that questionable calculation to calculate penalty tariffs on imports from China under the trade remedy rules. Indeed, it is precisely such unilateral and trade-restrictive measures, based on questionable methodologies and the selective use of data, that the United States criticizes as unfair in other countries.

Principle Six: America Should Rise to Global Economic Challenges, Not Retreat.

Addressing American anxiety about globalization, including trade with China, has an important domestic component that must not be ignored or underestimated. America cannot contain China, nor should it because of the widespread benefits of growing engagement. It can, however, enhance U.S. competitiveness through improvements in education, worker retraining, technology and other initiatives. Retreating to protectionist responses is not a long-term solution, nor an effective one. Improving American competitiveness from within is a long-term and effective solution that is critical to ensure a bright future for Americans.