

US-China, the US, and the WTO



ferguson

China's Two Decades of reform

1978	Open Door Policy initiated, allowing foreign trade and investment to begin
1978	“Household-responsibility system” in the countryside gave some farmers ownership of their products
1979	Collective farms assign plots to individual families
1979	Township and village enterprises encouraged
1979	Most urban families limited family size to one child to prevent population growth

TWO DECADES OF REFORM

1980	Special economic zones created for export; PRC becomes member of the International Monetary Fund
1981	Household responsibility reform allows farmers to retain surpluses as opposed to surrendering them
1982	The new constitution promises to protect "the lawful rights and interests of foreign investors"
1984	Self-Proprietorship (getihu) encouraged, of fewer than eight persons
1987	The very first e-mail in China was sent in September

Two decades of reform

1990	Stock markets open in Shanghai and Shenzhen; lending to non-priority sectors is increased
1993	Decision to establish a “socialist market economic system”
1993	The 1993 Company Law allowed SOEs to become corporatized, with a corporate board, and to establish joint stock companies
1995	Shift to contractual terms for staff of state owned-enterprises
1996	Full convertibility for current account transactions
1997	Plan to restructure many state-owned enterprises begins; China implements reforms to maintain stability after Asian Financial Crisis. Extends \$4 billion in aid to other Asian states
1999	Announcement of the “Go Out” policy to encourage Chinese firms to invest abroad

China & the wto

- In reality, China's accession protocol entailed significant concessions far exceeding the obligations of previous 'developing country' members
- World Bank argued, 'In many areas, the range of liberalization measures agreed surpasses efforts made in many developing and developed countries'
- Those industries and sectors that stand to lose most, even under rosy assumptions, are those where the hand of the state—or the hand of the old style of state control—still dominates. Those that stand to gain most, in particular clothing and textiles, are sectors where the new quasi-private sector and foreign ownership dominate

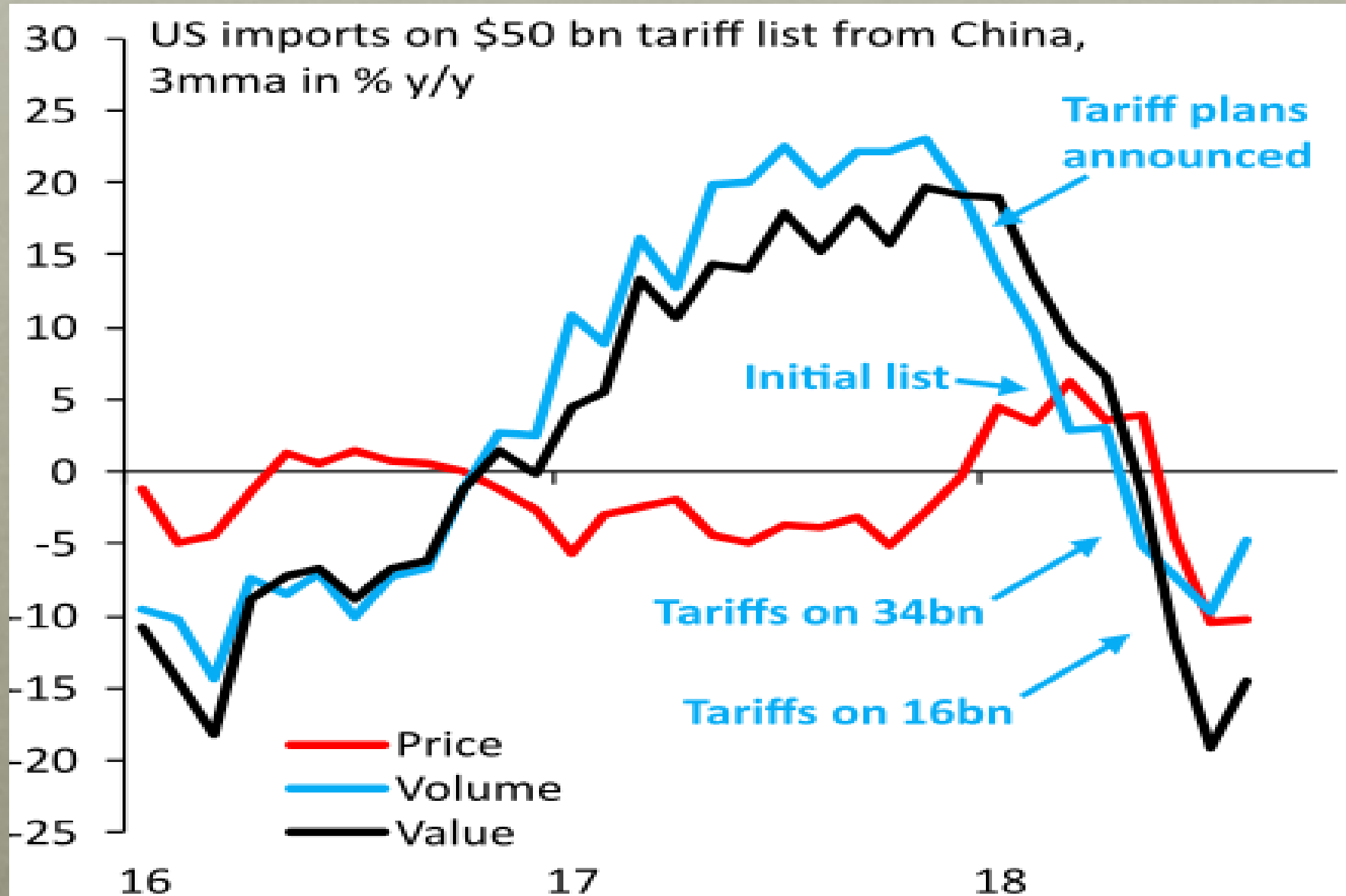
The china shock

- Mainstream trade economists were much too optimistic about the (benign) global “distributive and welfare effects” of China’s WTO entry
- They argued that trade adjustment would spread skill categories and no one group or sub-sector would feel the most pain
- **WRONG:** In a 2016 case study of the US, the combination of Chinese exports and workplace technological adaptation (robots) has been quite harsh on US workers
- This labor stress and job losses was compounded by the lack of public policies for re-training and acquiring new skills
- 2008-09 global financial crisis was the last straw. 25% of jobs lost are gone for good

China's Norm Evasion at the wto

- Intellectual property violations (cyber theft), both military and commercial
- Discriminatory treatment of foreign firms (forced technology transfer), preferences to state-owned enterprises
- Subsidizes exports with generous industrial policy
- Opening up of the economy has stalled
- Ignoring fundamental principles of reciprocity, Most-Favored-Nation

Washington has made its point



Source: USITC, IIF

Chinese economy is ailing

- Factory output had the weakest reading since that data series began in 1995
- Chinese exports just hit a 3-year low
- “Reported” GDP growth running at 6.2 %
- Beijing ramping up supportive policies, tax cuts and other fiscal expansion.
- But investment and consumption are down

But US economy ailing too

The US grew by 2.9 per cent in 2018, up from 2.2 per cent the year before, but some sectors have been hit hard by trade war:

- Farm sector (soy beans)
- Auto sector, disruption of global production chains
- For US companies with less than half of their sales in the US, earnings are expected to drop by 11.2 per cent this year
- The US goods deficit was \$891bn, the largest on record. China accounted for nearly half that total

Back to the Wto?

- In 2018, President Trump declared that the WTO was set up "to benefit everybody but us" and added: "We lose the lawsuits, almost all of the lawsuits in the WTO"
- US officials have challenged Chinese practices 23 times in the WTO; the win-loss record is 19-0, with four cases pending
- China has won only about one-third of the cases it has brought against the United States, with six cases currently pending
- US cases against China target a broad range of practices such as export duties and quotas, subsidies, and restrictions on market access to service sector. China mainly disputes methodologies and fact-finding

US vs China at WTO

WTO disputes between China and the United States, 2002-18

Case status	Complainant	
	United States	China
Total number of WTO cases	23	15
Settled via/during consultation	9	1
Ruling favoring complainant	10	4
Ruling favoring respondent	0	1
Pending	4	6

China's economic Challenges: medium-term

- Economic reform that gives preference to the private sector over state-owned enterprises
- Provides a level playing field for multinationals that want to do business with China---stop coercing technology transfer as a condition for investment
- Clean up the Belt and Road Initiative: adopt international standards around governance—including transparency, risk management, and environmental and labor practices
- Quicken the renminbi's slow and halting movement towards a market-based currency

What the US wants in a US-China trade agreement

At a minimum:

- An end to forced transfers of US technology
- Pull back on China's industrial subsidies
- Level the playing field between US and Chinese firms
- US demanding that China commit to purchasing \$1.2 trillion of American merchandise over an unspecified time period
- A bilateral mechanism to hold China accountable
- Dispute mechanism over "currency manipulation" (better done jointly thru diplomacy, IMF, G-20)

Expert Testimony

Michael Beckley elaborates on this economic risk:

“Chinese businesses...use roughly two times more capital and five times more labor than U.S. companies to generate the same level of output. More than one-third of China’s industrial capacity is wasted. More than half of its R&D spending is stolen. Nearly two-thirds of its infrastructure projects cost more to build than they will ever generate in economic returns.”

**“Stop Obsessing About China,” *Foreign Affairs*,
September 21, 2018.**

Diplomacy

- Us needs to engage in global governance and participate in international forums
- Work with allies and insist on China's constructive participation in the existing global rules-based system
- Take the high road in re-engaging China on all of these complex issues.