U.S. – China Trade Relations:  
A Future of Cooperation or Continued Competition?

It’s true that the United States and China have huge common interests in peace and prosperity. Two-way trade (now about $500 billion annually) can provide low-cost consumer goods to Americans and foodstuffs and advanced manufactured products to the Chinese. But China’s and America’s goals differ radically. The United States wants to broaden the post-World War II international order based on mutually advantageous trade. By contrast, China pursues a new global order in which its needs come first—one in which it subsidizes exports, controls essential imports (oil, food, minerals) and compels the transfer of advanced technology.¹

In the often turbulent international trade relationship between the United States and China, 2011 is already gearing up to be a year of either important developments or empty promises. Starting with Chinese President Hu Jintao’s four-day visit to the United States from January 18-22, 2011, the U.S. and China have already begun to address the simmering trade disputes between the two countries. Indeed, Hu’s visit offered a platform for China and the United States to address such urgent international trade issues as 1) the trade imbalance between the United States and China, 2) the undervalued Chinese currency and 3) limited U.S. access to the Chinese market. In all three areas, the United States failed to secure any major commitments during the bilateral summit.

This advisory provides an overview of the significant trade issues that were not only at the top of President Obama’s agenda in his recent meetings with President Hu, but also are at the forefront of the United States’ tenuous international trade relationship with China. In 2011, the question will be whether the U.S.-China trade relationship will continue down the path of competitive disadvantage or whether China will make meaningful commitments and move towards a cooperative trade relationship with the United States.

Trade, Currency and Market Access Top Hu and Obama’s Meeting Agenda

Trade Imbalances & Remedies

Trade figures released in January showed the U.S. trade deficit with China totaled $252.4 billion during the first 11 months of 2010. By contrast, China continues to export far more goods and services than it imports. In 2010, China’s global trade surplus totaled $183.1 billion.

While the dominance of the United States as the world’s largest economy is unchallenged despite the recent economic recession, China is catching up, and it has surpassed Japan as the world’s second largest economy. This changing landscape makes the imbalanced trade between the United States and China a major point of tension in the bilateral relationship.

The tensions in the trade relationship between China and the United States are also reflected in the large number of antidumping (AD) and countervailing duty (CVD) actions initiated in each country in recent years. In 2009 and 2010, the U.S. Department of Commerce issued 23 AD and CVD orders against Chinese imports. On the other side, among the 26 U.S. products that are currently subject to China’s AD and CVD measures, about half of them were initiated in 2009 and 2010.

Over the past year, China has been trying to increase domestic demand to reduce its global trade surplus and to create new avenues of growth. Indeed, China’s imports grew much stronger than expected to $141.08 billion, whereas exports fell short of forecasts, growing to $154.15 billion in last December. China’s global trade surplus fell 6.4 percent in 2010, and this is the second straight year that China has narrowed the gap.

Although recent trends suggest an improvement in the trade imbalance between the United States and China, the gap created by the trade imbalance is not being closed quickly enough for elected U.S. leaders. With the U.S. unemployment rate at 9.4 percent and a presidential election looming in 2012, the strain created by the ongoing trade imbalance is not expected to ease anytime soon.

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6 Supra, note 3.

7 Id.

Chinese Currency and U.S. Trade Deficit

U.S. exporters have consistently argued that the Chinese government uses policy tools to maintain a market suitable for Chinese export growth. U.S. lawmakers and businesses have claimed China’s currency manipulation contributes to job loss and weakened economic growth in the United States because it makes the cost of U.S. goods more expensive in China and makes Chinese products cheaper in the United States.

Undervaluation of the Chinese currency has also become a major allegation in recent CVD actions against imports from China. For example, in the recent AD and CVD actions against multilayered wood flooring from China, domestic manufacturers alleged that the undervaluation provides substantial means for increasingly high export levels to the United States.

There is no consensus over the relationship between the exchange rate and the trade deficit. The U.S.-China Business Council (USCBC), which has members that desire continued imports from China, has suggested that China’s exchange rate is not as significant a factor in the U.S. trade deficit as some have alleged. Rather, the USCBC asserts that the main factor in the growth of the bilateral trade deficit with China is the shift of America’s longstanding trade deficits with other East Asian economies to China, as a result of companies in Japan, South Korea, Taiwan, Hong Kong and other economies moving their export manufacturing to China over the last decade.\(^9\)

In addition, many economists contend that a sharp appreciation of the RMB might not resolve the trade imbalance. From their perspective, an immediate and sharp appreciation of China’s currency could disrupt its export industries and lead to widespread lay-offs, which in turn could slow China’s economic growth and reduce import demand.\(^{10}\) While an appreciation of the RMB against the dollar could help boost U.S. exports to China, it could also entail costs to the U.S. economy in the near term. China would not need to buy as many U.S. Treasury securities, which could cause U.S. interest rates to rise.\(^{11}\) A more expensive RMB could also mean higher costs for U.S. consumers, as well as firms that use Chinese-made inputs for their products.\(^{12}\)


\(^{11}\) Id., at 11.

\(^{12}\) Id., at 18.
**China’s Recent Currency Policy**

China has been appreciating its currency in response to international political pressure, but on its own schedule. From July 2005 to July 2008, the central bank of China allowed the RMB to appreciate against the dollar by about 21 percent. However, once the effects of the global economic crisis began to become apparent, China halted appreciation of the RMB in an effort to limit job losses in industries dependent on trade. From July 2008 to June 2010, China kept the exchange rate of the RMB at roughly 6.83 yuan (the base unit of the RMB) to the dollar. On June 19, 2010, the central bank stated that, based on current economic conditions, it had decided to “proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility.” From June 18 to December 24, 2010, China allowed the RMB/dollar exchange rate to rise by about 2.9 percent overall. While the RMB has risen 3.6 percent against the dollar since June 2010, some estimated that it remains undervalued by 15 percent to 17 percent on a trade-weighted basis.

Recently, U.S. lawmakers have been trying to push for the RMB’s appreciation through legislation. Since last year, the Democratic legislators have been seeking to amend U.S. AD and CVD laws to impose tariffs on Chinese imports to force China to quicken the pace of currency reform. The “Currency Reform for Fair Trade Act” (H.R. 2378) sponsored by three Democrats was passed in the House by a vote of 348-79 last year. The bill sought to amend Title VII of the Tariff Act of 1930 so that exchange rate manipulation by any foreign nation becomes actionable under U.S. AD and CVD laws. The bill was presented to the Senate Finance Committee, but expired as the last session ended. The bill was opposed by organizations like USCBC, arguing that the bill was inconsistent with the WTO rules, and that the current AD/CVD law already addressed the currency undervaluation issue by applying the special nonmarket economy approach to China.

Just days before President Hu’s visit, three Democratic senators introduced the Currency Exchange Rate Oversight Act of 2011—another piece of legislation aimed at punishing China for its failure to appreciate its currency. The bill, if passed, would impose stiff penalties on designated countries

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16 Supra, note 9.


that manipulated currency in a way that unfairly harmed U.S. trade.\textsuperscript{20} Penalties would include tariffs on exports and a ban on any companies from those countries receiving U.S. government contracts. The bill creates a new approach to identifying currency manipulators by requiring that the Treasury Department base its determination strictly on objective measures related to currency exchange rates. It removes the requirement that the Treasury determine that currency misalignment is “willful” before it can cite a country for violations. It sets a three-tiered scale of penalties for countries that fail to correct the problem within a time frame. The legislation also establishes two tracks by which Commerce can take action if a foreign country refuses to float its currency. One path would be to utilize anti-dumping laws to enable Commerce to counter the effect of misaligned currency. The other path would allow Commerce to apply countervailing duties to goods coming into the United States from nations that misalign their currency.

However, the prospects for congressional approval of the measure are questionable. The bill focuses strictly on currency while ignoring other trade barriers. Congress may be less likely to pass legislation on the issue than it had been last year, when both chambers were under Democratic control. Besides, the bill lacks full support from senior Republicans, such as Dave Camp (R-MI), the new chairman of the House Ways and Means Committee, who opposes this bill because he would rather address the currency issue in a broader context of harmful Chinese policies, which would include not just the currency issue, but also the indigenous innovation policy, direct and indirect subsidies to industry and IP piracy.

Meanwhile, the Obama administration is trying to get across the message that further appreciation of the RMB is in China’s best interest. Speaking ahead of Hu’s visit, U.S. Treasury Secretary Timothy Geithner stated that China should let its currency appreciate more rapidly to avoid unleashing a damaging round of inflation.\textsuperscript{21} Geithner argued that it is in China’s self-interest to allow its currency to rise, to curb building inflationary pressures in the Chinese economy and to reach its goal of reducing the share of exports in overall economic growth.

It is unlikely that there will be any fundamental changes to China’s monetary policy any time soon. Chinese leaders are adamant that a conservative path toward a fully convertible currency is the only way that Beijing may maintain a stable economy. Furthermore, China will resist unilateral pressure from the United States on the issue. Washington’s diplomatic efforts through the G-8 and G-20 during the past year have failed to generate a strong coalition of major economies that would wield the collective clout necessary to succeed in speeding up the process of currency reform in China.


Market Access

Contributing to the trade imbalance between China and the United States are the limitations related to U.S. access to the Chinese market. China is the fastest growing export market for the United States. In 2009, China became the third-largest export market, following Canada and Mexico.\textsuperscript{22} It is the only U.S. export market that has averaged 15 percent annual growth over the past decade.\textsuperscript{23} From 2000 to 2009, U.S. exports to China grew 330 percent.\textsuperscript{24} The United States is now exporting more than $100 billion a year in goods and services to China, and exports to China are growing nearly twice as fast as it exports to the rest of the world.\textsuperscript{25}

Despite the progress, access to the Chinese markets has become a major issue in recent U.S.-China trade frictions as the United States seeks to expand its exports. At his meetings with President Hu, President Obama focused on pushing China for market access. From a strategic perspective, focusing on this issue provided him with strong backing from the business sector. In terms of deliverables, however, the summit offered few meaningful victories.

As China becomes increasingly assertive about its domestic and foreign policies, complaints against China’s trade barriers are growing. One of the many examples is China’s increasing censorship, which creates tremendous barriers for the fast-growing information and IT industry. Last year, Google was forced to move its Chinese service out of mainland China to Hong Kong.\textsuperscript{26}

U.S. companies also complained about aggressive Chinese regulatory regimes that shut them out of massive government procurement contracts. Among them, for example, is General Electric, who openly complained about an increasingly difficult regulatory environment in China and expressed a growing frustration at China’s protective measures for its national companies.\textsuperscript{27}

Hu’s Visit – One Step Forward or Two Steps Back?

Currency

As a result of Hu’s visit, China promised in a U.S.-China joint statement issued on January 18, 2011, that China would continue to promote exchange rate reform and flexibility. However, it was observed that during his meetings with Hu, Obama downplayed the currency issue relative to other factors that impact U.S.-Chinese trade, such as market access and intellectual property protection. While


\textsuperscript{23} See supra, note 9.


\textsuperscript{25} See Remarks by President Obama and President Hu in a Roundtable with American and Chinese Business Leaders, Jan. 19, 2011.


\textsuperscript{27} See supra, note 17.
some organizations criticized the administration for failing to secure a firm commitment from China, others spoke favorably of Obama’s strategy, noting that many companies doing business in China rated China’s currency as a minimal problem compared to other trade barriers.

A major shift in the RMB’s exchange rate is unlikely to be imminent. While the Obama administration will continue to press for further and faster appreciation, China is unlikely to adhere to any time line advocated by the United States and will instead follow its own schedule. In response to Treasury Secretary Timothy Geithner’s argument that appreciation of the RMB will help tame China’s rising inflation, Hu dismissed it as the primary solution.28 Prior to his visit, Hu said in written responses to questions from The Washington Post and Wall Street Journal that China has adopted a “managed floating exchange rate regime” determined by the balance of international payments and supply and demand.29 Not long ago, China’s central bank announced a return to the exchange rate flexibility.30 Accordingly, China is likely to resume gradual appreciation; however, it is important to note that the managed float is between an extremely narrow band of less than even five percent.

It is also anticipated that China will continue to provoke the United States as Beijing pushes to make the RMB a global currency like the dollar. Indeed, President Hu told the Wall Street Journal in January that the dominance of the dollar in the global financial system is “a thing of the past.”31 While economists do not anticipate the dollar to be replaced by the RMB anytime soon, the political intent of Beijing’s provocations are clear—to pressure the United States to back off on the currency.

Market Access

Pressed by the United States to revamp its plans for indigenous innovation, China has pledged to join the World Trade Organization’s (WTO) government procurement agreement. The agreement would limit China’s ability to discriminate against foreign firms. Last month, China pledged to amend a buy-Chinese provision. However, government procurement represents only a small percentage of contracts where indigenous innovation is in play, and the policy amounts to a government-coerced transfer of technology from U.S. firms to Chinese ones. Accordingly, this was not a “win” for the United States, merely a first step.

President Hu’s visit to the United States brings further developments for market access. Prior to his visit, President Hu renewed a pledge to offer a level playing field in China for U.S. companies. During his meeting with President Obama on January 19, 2011, President Hu agreed to end discriminatory policies that have restricted U.S. business access to Chinese markets. In addition, acknowledging the inadequacy of its initial WTO offer made last year, China agreed to submit a new offer to the

30 See supra, note 15.
31 Supra, note 28.
WTO Government Procurement Committee this year, which will cover China’s central government purchases, as well as those made at provincial or more local levels.

Regarding intellectual property rights, China took a limited step toward greater enforcement of U.S. copyrights. In the U.S.-China joint statement issued at the conclusion of the summit, China pledged to “continue to strengthen its efforts to protect [intellectual property rights], including by conducting audits to ensure that government agencies at all levels use legitimate software and by publishing the auditing results as required by China’s law.” The U.S.-based Business Software Alliance has criticized China’s statement as merely an offer of incremental steps that fall short of systematic efforts to address IP piracy in China. It remains unclear whether Beijing views the pledge in the joint statement as a new measure, or merely the repetition of promises made on IP rights during the November session of the U.S.-China Joint Committee on Commerce and Trade.

China also held its ground regarding the provision of renewed market access for U.S. beef products. China has maintained a longstanding ban on U.S. beef products under 30 months of age as a response to an outbreak of mad cow disease several years ago. Despite negotiations in Beijing in December aimed at breaking the impasse, China has responded to U.S. pressure with only limited commitments to continue discussing the parameters of how a ban would be lifted, which may include inspections of U.S. beef processing facilities and traceability of U.S. livestock. China made similar pledges to the Canadian government in early 2010, but has yet to fully reopen its market to Canadian beef. Korea, Taiwan and Japan also maintain partial bans on U.S. beef related to concerns over mad cow disease.

**Conclusion**

As the third-largest buyer and the fastest-growing export market for U.S. exports, China will remain at the center of the discussions in international trade. The Obama administration and U.S. businesses will continue to push for a more balanced trade relationship with China. In this regard, the administration plans to pursue a multilateral approach, which, at best, appears to be without a central mission or vision. With this backdrop, it is unlikely that the United States can convince China to make major commitments towards creating a more balanced trade relationship.

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Please direct any questions concerning the issues discussed in this International Trade and Regulatory advisory to any of the following Alston & Bird attorneys or policy advisors:

Thomas E. Crocker  
202.239.3318  
thomas.crocker@alston.com

Kenneth G. Weigel  
202.239.3431  
ken.weigel@alston.com

Elizabeth Hein  
elizabeth.hein@alston.com  
202.239.3478

Eric Shimp  
eric.shimp@alston.com  
202.239.3409

Chunlian Yang  
202.239.3490  
lian.yang@alston.com