



US-China Trade Disputes Could Grow

Gary Clyde Hufbauer says that while the specific trade disputes the United States has with China are in line with the levels experienced with other countries, those with China are likely to grow.

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Steve Weisman: Tensions between China and the United States are usually focused on the issue of currency. But Gary Hufbauer at the Peterson Institute for International Economics has looked at the dozens of individual trade disputes between the two countries and done an inventory with his research assistant Jared Woollacott. This is Steve Weisman. Thanks for coming here to discuss it.

Gary Hufbauer: Thanks very much.

Steve Weisman: What is the magnitude of these disputes?

Gary Hufbauer: Let me start off with a broad picture of US-China trade. Today two-way trade is a little over \$400 billion, very slanted in the Chinese direction: roughly \$300 billion of Chinese exports to the United States and \$100 billion in the other direction. That's grown very, very rapidly since the 1990s and our paper covers in detail the period since China joined the WTO in 2001. We looked at all the disputes that we could find any record of. Given the very rapid growth in trade from just \$10 [billion] to \$20 billion in the 1990s to the level today of \$400 billion, the disputes are well within the range of what you might expect with a rapidly growing trade relation. There are disputes in both directions: a lot of antidumping cases, literally dozens of antidumping cases by the United States against China and China against the United States; countervailing duty cases, those involve subsidies by one country or the other; safeguard cases such as the tires case in the United States.

Steve Weisman: Safeguards are when imports suddenly increase—

Gary Hufbauer: Right, they're regarded as totally fair imports—no unfairness, which is the essential ingredient of antidumping and countervailing duty cases. But safeguard cases—they're just fair trade [that] grows very, very rapidly and hurts the industry on the receiving end. But when you add up all those cases in terms of trying to assess the volume of trade, which we tried to do, it's actually pretty small.

Steve Weisman: Is it in proportion to such cases with other trading partners?

Gary Hufbauer: Yes, surprisingly it would be very similar to US trade with Canada, which of course is a good friend, a good neighbor. After we had the Canada-US Free Trade Agreement back in 1989 we had quite a surge in trade in both directions. We had some difficult industries. Softwood lumber was the most difficult. And we had in a lot of cases in both directions. And with China, it's actually rather a similar pattern in both directions, at least up to this point. But we may be at an inflection point as your opening comments suggested.

Steve Weisman: Why is that? Is it because of growing concerns in the United States that China is mounting a policy of industrial support for national champions? That's one thing you hear in Washington a lot.

Gary Hufbauer: Yes, I think there are three reasons for the possibility of a major upsurge in the volume and the importance of cases and the tension associated with them. One, of course, is the very high rate of US unemployment. When you have 10 percent unemployment, people are very sensitive to imbalances in trade, and we have a big deficit with the world, and a big deficit with China.

Point two is the Chinese currency policy where they've kept the currency quite low for a long period of time while they're accumulating vast hoards of foreign exchange. It's approaching \$3 trillion now. And it looks to a lot of people, not just to Americans but Indians and Brazilians and even others, as a mercantilist policy that is all pro-exports, restricting imports.

And the third is exactly what you mentioned. The industrial innovation policy, the indigenous innovation policy of China, you can find its roots back in 2003, even earlier than that. But it's flowered in 2006 and 2009 and really looks to be a concerted program to boost Chinese firms at the expense of other firms, including American firms in all sorts of innovative areas. And this is causing a tremendous amount of—not anxiety, but anger on the part of the foreign firms doing business in China.

Steve Weisman: Are the tools used by the United States—countervailing duties and antidumping duties—equal to the task if China heads in this direction at an accelerated pace?

Gary Hufbauer: No, probably not. These tools are really for dealing with grievances on individual industries. I mentioned tires, but there's also steel, paper, furniture cases, and so forth. But [these are] individual cases [that] may total a couple billion dollars of trade, but not tens of billions of dollars and don't really go to the investment and intellectual property dimensions that we're talking about in the new policies.

So those are the kind of tools that the United States has and that's why Congress is scratching its head on possible new tools and trying to size up the Chinese challenge. Maybe some people will say we're exaggerating, we're making a monster where it doesn't really exist. Other people say, "No, no, no, look at the details of what they've been doing" and that they are in Chinese speeches to that effect. But if there really is a highly nationalistic direction to Chinese policy, just starting maybe two years ago, US tools don't answer it.

Steve Weisman: What are the prospects of productive negotiations in this new direction?

Gary Hufbauer: I'd like to reserve judgment until after President Hu [Jintao] and President Obama meet in January. They haven't actually set their date, but it will be in late January. And possibly we'll get a breakthrough on currency there, which would be very auspicious for a breakthrough on other issues. But my best guess would be that we'll not get a breakthrough. I've read about this indigenous policy and it's quite deeply rooted in the state on enterprises. It's got a lot of nationalistic fervor behind it. There are many, many bureaucracies [that] have bought into the policy. There are hundreds of billions

of dollars feeding the policy through research and various kinds of subsidies. I think the unfortunate picture would be that things are likely to get worse before they get better.

Steve Weisman: What would you recommend unilaterally for Congress to do?

Gary Hufbauer: I don't have a concrete recommendation on the indigenous innovation policy. We pretty much leave the response to that to our private firms. We might have to formulate a national policy in response if this continues along the path it seems to be going. On the currency policy, the Congress has before it the House-passed bill on Chinese currency, which would impose a countervailing duty. It's a fairly modest step. It's questionable whether it's WTO legal, but we wouldn't really know that for a couple of years. The approach I favor on currency is actually to tax the earnings on Chinese holdings of US Treasury bonds and bills and other assets as a way of telling them they've acquired enough foreign exchange now and they ought to change their policies. But there are other solutions [that] have been proposed by other commentators.

Steve Weisman: Gary Hufbauer, thanks very much.

Gary Hufbauer: Thank you.

