



Addressing Concerns on The Growing US Trade Deficit with China

Lijuan Zhang

COMMERCIAL DIPLOMACY

MASTER'S PROJECT

Advisor: Geza Feketekuty

March 5, 1999

ADDRESSING CONCERNS ON THE GROWING US TRADE DEFICIT WITH CHINA

TABLE OF CONTENTS

SECTION PAGE

1. [SCENARIO AND ISSUE](#)
2. [OUTLINE OF THE PROJECT](#)
3. [INTRODUCTION](#)
4. [BACKGROUND](#)
5. [ANALYSIS OF THE SUBSTANTIVE POLICY](#)
6. [DOMESTIC STRATEGY](#)
7. [NEGOTIATION STRATEGY](#)
8. [MEDIA STRATEGY](#)
9. [LEGISLATIVE STRATEGY](#)
10. [WHITE PAPER](#)
11. [EXHIBITS](#)

12. BIBLIOGRAPHY

SCENARIO AND ISSUE

PURPOSE

This is a project researched and prepared by Lijuan Zhang and required for the MA in Commercial Diplomacy (MACD) offered by the Monterey Institute of International Studies (MIIS). Lijuan Zhang is a Fulbright scholar from the People's Republic of China, and is a graduate of the MACD program. As a Chinese scholar, she has great interest in the study and research of US-China trade relations. This research project has been conducted as part of the program requirements for the MACD.

For purposes of this project, I will assume the role of Advisor working for the US-China Trade Promotion Council, with the responsibility to develop a comprehensive strategy to address US-China trade relations, focusing on concerns of US-China trade deficit issues.

The advisor on this project is Professor Geza Feketekuky, founder of the MACD program and a former senior trade official in the office of the United States Trade Representative (USTR).

ISSUE

The issue for the United States is how to resolve the growing trade deficit with China while maintaining and improving both the political and trade relationship between these two important nations.

China has clearly become a major participant in the world economy. It is virtually certain to become even more important in the future because of its size, dynamic economic growth, and continuing policy reforms. However, along with increasing US-China trade, there is growing concern regarding the trade deficit with China.

This project addresses the entire array of commercial, policy, and political issues now being discussed between the United States and China, and provides domestic, negotiation, media and legislative strategies regarding the US-China trade deficit issue.

RECOMMENDATIONS

This project conducts a comprehensive analysis of the US-China trade relations, and offers a range of recommendations for both the US and Chinese government as they undertake the always complex task of improving their relationship.

RECOMMENDATIONS FOR THE US GOVERNMENT:

The US government should take steps to improve public understanding of the US-China trade relationship and the evolving economic and political situation in China.

Specially, the US should take steps to:

1. Explain the progress that China has made regarding its trade policy practices.
2. Acknowledge China's progress towards a market economy.
3. Emphasize the importance of US-China trade in order to establish a more solid foundation for a constructive trade relationship with China.

RECOMMENDATIONS FOR THE CHINESE GOVERNMENT:

The Chinese government should accelerate its domestic reforms, consistent with its long-term economic development strategies.

Specially, the Chinese government should take steps to:

1. Open its markets and improve economic efficiency by providing a more transparent policy regime.
 2. Accelerate its domestic reforms, such as state-owned enterprises (SOEs) reform, banking system, and social welfare system reform, consistent with its long-term development objectives.
 3. Establish a more open civil society and build a better understanding with the rest of the world.
-

OUTLINE OF THIS PROJECT

1. SCENARIO AND ISSUE

- Issue
- Recommendations

2. OUTLINE OF THE PROJECT

3. INTRODUCTION

- Introduction
- Recommendations to the US government
- Recommendations to the Chinese government
- Two views of the US-China trade imbalance

4. BACKGROUND

- US-China trade
- US Trade Deficit with China

--Trade Deficit Background
--Trade Structure
--US Reactions

- The Chinese Trade Performance

--Chinese Trade Policy
--Chinese Trade Pattern
--China Reactions

5. ANALYSIS OF THE SUBSTANTIVE POLICY

- The Commercial Issues
- Substantive Policy Issues
- The Political Landscape

6. DOMESTIC STRATEGY

- Establishing the Consensus inside the US
- Policy Strategy
- Political Strategy

7. NEGOTIATION STRATEGY

- US Negotiation Strategy
- Chinese Negotiation Strategy
- Negotiation Characteristics

8. MEDIA STRATEGY

- Domestic Media Strategy
- International Media Strategy
- Memorandum
- Press Release

9. LEGISLATIVE STRATEGY

- Introduction
- Goals and Objectives
- Testimony before the House Subcommittee on Trade of the House Ways and Means

10. WHITE PAPER

- Introduction
- Causes of Trade Deficit
- Actions Plan
- China's Response
- Lessons for the Future

11. EXHIBITS

1. Interests Analysis for Negotiation Strategy
2. US Exports to Hong Kong and China by States
3. US Trade with China (1998)
4. Top Ten Countries with Which the US Trade (1998)
5. Top Ten Countries with Which the US Has a Trade Deficit (1998)
6. US Total Trade with China (1991-1997)
7. Top US Imports from China (1991-1997)
8. Top US exports from China (1991-1997)
9. China's Trade Balance with major Trading Partners (IMF)
10. US Merchandize Trade Balances
11. Two Views of US Trade Deficit with China
12. China's Trade Deficit with the World
13. Post Congressional Votes on China's Trade Status
14. 1996 Poll on US-China Relations
15. Sample Letter to House of Representative

12. BIBLIOGRAPHY

ADDRESSING CONCERNS ON THE GROWING US TRADE DEFICIT WITH CHINA

INTRODUCTION

As an advisor of a hypothetical organization—the US-China Trade Promotion Council, I will develop a comprehensive strategy to address the concerns of both the US and Chinese governments and industry regarding the growing US trade deficit with China.

There are three reasons for both the US and China to reduce tensions surrounding the bilateral trade imbalance.

First, China and the US are two of the most important nations in the world. China is the largest developing country while the US is the largest developed country. Working together, they can shape a more effective global trading environment.

Second, the US and China have mutual economic and trade interests. Bilateral trade between the US and China has developed rapidly since 1979, but the tensions generated by a growing trade imbalance have become a concern to both governments.

Third, in the interest of global stability, the US must work to help build a civil society in China.

At present, the US is deeply concerned over the growing trade deficit with China. US trade with China produced a 1997 deficit of \$49.7 billion, up from \$39.5 billion in 1996. Further, the US deficit with China is closing in on the US's largest bilateral deficit, the deficit with Japan. Analysts believe this trend will result in the deficit with China surpassing the imbalance with Japan as early as this year. The trade imbalance issue will be one of many issues raised by opponents of Normal Trade Relations (NTR, formerly MFN) renewal. As China is a potential pre-eminent economic power for the 21st century, it is crucial for the US government to make bilateral and multilateral efforts in every forum to open the Chinese markets, and to put an end to the growing US trade deficit with China.

However, China argues that the US-China trade imbalance is not as large as the US claims. China also argues that it has made significant progress in its domestic economic regime and trade policy reform during the past ten years and is in position to join the international trade system and have normal bilateral trade relations with the United States. Additionally, China is prepared to take some further trade liberalization measures. However, China does not believe it should be required to do anything or take any measures that would disrupt its economic reform strategy and domestic economic and political stability.

As achievements are being made in various areas of economic and trade cooperation, the US and China still hold different views on the true size of the trade deficit issue (See Exhibit #8). However, viewed as a whole, development and cooperation between these two nations stand out as the main theme. Therefore, the best way to resolve these differences is a thorough and constructive dialogue leading to mutually supportive economic and political steps. Confrontation should be avoided because it will not help solve the differences.

To achieve this goal, I will provide strategies for building a consensus inside the US, and inside China. I will also suggest practical steps the US government can take to improve US-China trade relations, as well as steps the Chinese government can take to strengthen its trade policy reform, to further open markets, and to provide a better policy environment for foreign trade. I will develop separate strategies to address each aspects of this research project.

RECOMMENDATIONS TO THE US GOVERNMENT

The US government should take steps to improve public understanding of the importance of the US-China trade relationship, and the evolving economic and political situation in China. The following steps would be very helpful:

1. Explaining the progress that China has made regarding its trade policy practices and their impact on the US-China trade

A clear understanding of the trade deficit has profound implications for the national debate regarding US trade policy with China. At present, there are some misunderstandings about US interests in this area. These misunderstandings have spawned a number of debates about trade policy towards China. In order to improve US-China trade relations, the US government must help to educate and ensure the public that China has made important commitments and established a legal foundation for economic and administrative reform. Even with these efforts, enforcement will not occur overnight.

Areas of substantial Chinese trade policy progress include:

1. Transparency and judicial review: China has committed to publish all trade-related laws and regulations and provide procedures for comment prior to their implementation.
2. Trading rights: China granted private manufacturing enterprises and research institutes direct import and export rights since January 1, 1999.
3. State trading: China has ensured that all State trading activities will comply with WTO requirements--trade will be conducted on commercial terms and information on pricing mechanisms for exported goods will be made available.

Other areas in which significant commitments have been made include:

- Improved rules regarding the administration of special economic areas;
- Implementation of China's import and export licensing regime;
- Reduction of taxes and levies on imports and exports;
- The elimination of WTO-inconsistent import prohibitions;
- Commitments not to apply export subsidies to agricultural goods.

2. Demonstrating China's progress towards a market economy

The establishment of a market economy system is crucial to China's future. All trade and economic issues are closely related to how globally integrated China allows its economy to become. The more open the Chinese market system, the more opportunities the US industries will have. Therefore, for the Chinese government, the first priority should be to establish a complete market economic system within its Ninth Five-Year Blue Plan. There is no doubt that China has made substantial progress in the last ten years to decentralize its economy and trade. For example, most prices are decided by the market rather than by the government; SOEs may determine production levels and in many cases

the prices of their products. These have created growing trade opportunities for the US industries.

3. Emphasizing the importance of US-China trade

These two important nations will play key roles in the global economy, since China is the largest developing economy and the US is the largest developed economy. The most important thing the US government can do at this time is to build a more harmonized relationship with China to convince the American people that China will play a crucial role in major international issues which the US will face in the decades to come, and that a normal trade relations with China is in America's commercial and strategic interest. The President must convince Congress to pass legislation to establish normal trade relations with China.

At present, China is the sixth largest importer of US agricultural products, and the biggest importer of civilian aircraft from the US. US technology is highly respected the world over and China is creating a bright future for the US to export its technology. The US is now China's 2nd largest trade partner while China has grown into the 4th largest trade partner with the US. It is clear that the US has greatly benefited from China's open-door policy.

With respect to jobs and growth, China has become the 6th largest agricultural market for US growers, with exports to China and Hong Kong now supporting over 400, 000 American jobs. Meanwhile, China is a crucial part of the recovery process from the Asian financial crisis, which already affects the US economy. However, the debate now within the administration is whether to initiate retaliatory actions against China or to give China some breathing room in view of the suffocating economic conditions in the region. The US should base its China policy on its long-term interests and be fully aware the US interest can only be served by a secure, stable and open China.

- 1. Change the basis for calculating the bilateral balance by including Hong Kong in China. Also develop an analytical way for value-added trade balance.**

The US import statistics has ignored entrepot trade and value added from entrepot trade, and this lead to over-estimate its imports from China. According to the US information, 20% of Chinese goods are directly shipped to the US, while the remaining 80% get into the US through a third place, mainly through Hong Kong. Therefore, the added value created at the third place after the goods have left China should not be calculated as exports from China. While only about a quarter of the US re-exports to China via Hong Kong was included in the US statistics of its exports to China.

Since Hong Kong is a part of China now, the US should change its statistical method, and include Hong Kong in its statistics regarding the US-China trade balance.

RECOMMENDATIONS TO THE CHINESE GOVERNMENT

The Chinese government should accelerate its domestic reforms and comply with its long-term economic development strategies already made. For these purposes, the following strategies need to be considered:

1. Explain to the public the necessity and benefits of further market access

China must explain to its own public that open markets are the trend of the world economy. Free trade, characterized by market access and fairness, accelerates economic growth and investment, raises real wages, and enhances productivity growth. Most businesses benefit from open markets because alternative sources of supply enhance competitive pressures on domestic firms, forcing them to improve their products and their methods of production to keep pace with the competition. By contrast, protection makes domestic industries lose opportunities and provides no pressure to improve competitiveness.

Currently, China's main concern for further market opening is its domestic and infant industries. It is understandable to protect the domestic industry during a development period, but this protection must be eliminated in the end. In fact, China has benefited from its open door policy. Therefore, further opening of markets must be put on the trade policy agenda as soon as possible.

2. Inform the US public of China's progress to improve free trade and promote the US's benefits from these efforts

One of the most important strategies the Chinese government can implement is to better educate the world about China. China has been pursuing a more open market for twenty years. However, the great achievements that China has made are not that well known to the US public. Therefore, China must inform the US public what has been accomplished and what can still be done towards free trade.

3. Continue the progress of establishing a civil society

China's economic development has helped to make great improvements in human rights in recent years. People enjoy more democratic rights, and benefit from the fast growing economy. However, China still has more work in building a civil society, providing private interaction by individuals, associations, religious organizations, and businesses. With development of a good civil society and respect of individual citizens by government authorities, people can then enjoy their own lives by making individual choices. Meanwhile, China needs to work towards building an understanding with the rest of the world. By increasing opportunities for dialogues at all

levels of society, particularly with its main trading partners, China is moving towards a more open society.

4. Maintain momentum of domestic economic reforms

China must keep its domestic reform on schedule in order to build a solid foundation for a long-term economic growth and trade development. The Chinese government should be aware of the importance of its success and continue its current domestic reform, such as SOEs reform, banking system reform, and social welfare system reform.

5. Take some further trade liberalization measures consistent with the domestic reform strategy

The Chinese government should making use of the new opportunity created by its domestic reform to further liberalize its trade. The Chinese economy and trade are becoming an important part of the global economy. China must take some further trade liberalization measures, consistent with its domestic economic reform.

TWO VIEWS OF THE US-CHINA TRADE IMBALANCE

	US VIEW	CHINA VIEW
IMBALANCE STATUS	Large Deficit	Small Deficit
INSIDE ARGUMENTS	<p>The US argues that its trade deficit with China is caused by:</p> <ul style="list-style-type: none"> • China's lack of market access • Lack of policy transparency • Human rights violation • Non-predictability 	<p>China argues that the bilateral trade deficit is not as serious as the US described, because:</p> <ul style="list-style-type: none"> • Statistical difference • Statistics based on Rules of Origin cannot reflect the situation of Sino-US trade balance • US export control against China is a major obstacle for bilateral trade balance
POLICY TOOLS UNDER DISCUSSION	<ul style="list-style-type: none"> • Restrict imports from China • Revoke China's normal trade relations • Block China's WTO entrance • Trade sanctions 	<ul style="list-style-type: none"> • Try to explain the reasons of imbalance • Improve trade with other countries in case of the possible US trade sanctions • Trade retaliation
	<p>To improve public understanding</p> <ul style="list-style-type: none"> • Explain the progress that China has made regarding its trade policy practices and 	<p>To accelerate domestic reforms and comply with its long-term economic development strategies</p>

<p>MY RECOMMENDATIONS TO BOTH GOVERNMENTS</p>	<p>their impact on US-China trade</p> <ul style="list-style-type: none"> • Demonstrate China's progress towards a market economy • Emphasize the importance of US-China trade 	<ul style="list-style-type: none"> • Take steps to expand and keep on schedule with economic and administrative reform, including promote transparency and predictability • Expand market access • Continue the progress of establishing a civil society
--	---	---

BACKGROUND

US-China trade

China is one of the most important trading partners of the United States. According to Department of Commerce (DOC) statistics for 1998, total US-China trade measured \$85.41 billion, a 13.4% increase over 1997, making China America's fifth-largest trading partner. In 1998, US exports to China climbed 11.3% from 1997 to \$14.25 billion, while imports grew 13.8% to \$71.15 billion. This created a new trade deficit with China of 56.9 billion at the end of 1998, causing the US trade deficit with China to expand by 18.6% to \$11.5 billion, second only to Japan. This is one of the largest trade deficits.

Growing concern over the US trade deficit with China has plagued the bilateral relationship in recent years. Fueled in part by consistently strong US imports of toys, footwear, small electronic items, and apparel, the US deficit with China also has worsened due to Chinese market access restrictions, including both barriers at the border and restrictive regulations at all level of government. The deficit is the focus of discussions at the highest levels of both governments, and is one of the crucial issues on the 1998 US trade agenda.

US Trade Deficit with China

1. Trade Deficit Background

In 1997, the US merchandise trade deficit with China was \$49.7 billion, an increase of \$10.2 billion from 1996, and an approximate 50% increase since 1995, when the merchandise trade deficit with China stood at \$33.8 billion. China marked the 11th straight annual increase in the deficit with the US.

Following the 1997 record deficit, the US merchandise trade deficit for 1998 was \$56.9 billion. The deficit with China increased from \$49.7 billion in 1997 to \$56.9 billion in 1998. As the full impact of the Asian financial crisis is felt, the US trade performance will show a sharp deterioration. Steep devaluation of Asian currencies will make these

products cheaper in the American market while making it harder for US exporters to sell into Asian markets. The widening trade gap is likely to add to the US government's headaches. Within one year, the US trade gap with China will likely be worse than with Japan.

2. Trade Structure

The US Department of Commerce reported that the flood of Chinese clothing, shoes, and toys are main contributors to this growing trade gap.

In terms of trade in services for 1996, the US exported \$3.1 billion to China and imported \$2.0 billion from China, resulting in a positive services trade balance with China of \$1.1 billion.

In terms of Foreign Direct Investment (FDI) in 1996, the stock of US FDI in China was \$2.9 billion, an increase of 36% from the level of US FDI in 1995. At present, the US FDI flows to China continue to increase. US FDI in China is concentrated largely in the manufacturing and petroleum sectors.

3. Trade balance accountings

The US import statistics does not calculate value added from entrepot trade, and its export statistics does not calculate the US re-exports to China. Therefore, the size of US trade deficit with China has been largely exaggerated. For example, the average rate of value-adding of Chinese exports to the US via Hong Kong was 40.7% in 1996 and 1997, which was calculated as imports from China, and thus greatly over-calculated the US's real import value from China.

4. US Reactions

The growing trade deficit with China is unacceptable to the US and it is becoming an increasingly important issue for both nations.

US industry continues to express concerns over China's significant trade barriers. US parties assert that China is seeking to build international competitiveness by protecting various sectors.

The US government has complained that China's lack of market access and transparency hurts the US and is doing very little to change the situation. For these reasons, the United States continues to block China's entry into the WTO, and to impose trade sanctions on some Chinese products.

Chinese Trade Performance

1. Chinese Trade Policy

China has increasingly strengthened the protection of foreign business under its legal system, and steadily improved its trade and investment policy environment.

In the past few years, China has taken a series of important measures in improving its trade regime and policies:

1. In order to improve transparency, China has publicized all management documents that used to be deemed confidential.
2. China lowered its import tariffs and brought down the average tariff from 35.3% to 23% in 1996, and pledged to further lower overall tariff rates to 15% by the year 2000.
3. China has taken steps to phase out non-tariff measures and also set forth a timetable to further lift these barriers
4. China has begun to open its market to foreign investors in such service sectors as domestic retailing, finance, and insurance.

However, China is not an open and free market. For example, China still maintains restrictive import policies, such as high tariffs and taxes. Although China reduced tariffs several times in 1996 and 1997, most of the tariff reductions have been on low volume imports. The Chinese government determines the level of import flows through licenses, quotas, and other non-tariff measures, such as the "automatic" registration requirements, electromechanical product import control measures, regulations on the administration of medical equipment, and camera import control measures.

1. Chinese Trade Patterns

1. Foreign direct investment (FDI) has been a key factor contributing to China's large trade surplus. This trend has existed for a considerable period, due to the implementation of preferential policies by the Chinese government to attract foreign investments since 1979. In 1996, the utilized amount of FDI was \$ 41.725 billion, and the US FDI in China was \$3.44 billion. (*Source: China's General Administration of Customs*).
2. In 1997, mechanical and electrical products were the number one trading goods in both exports and imports. Other principal export goods include clothing and accessories, textile yarn, fabrics and their products, shoes and toys. Other principal import goods include primary plastics, steel, crude oil and refined oil, and integrated circuit and micro electronic components (*Source: China's General Administration of Customs*).
3. Chinese service trade moves slowly. Service trade opportunities, particularly in the financial services, telecommunications, distribution, and professional services, have been affected by a variety of limitations on foreign participation throughout China's economy.

3. China Reactions

China is aware of US concerns regarding the trade imbalance. This has been highlighted through commercial and diplomatic channels especially through the long-lasting negotiation process of its WTO entry. However, China is focusing on further reforms in several fields, such as state-owned enterprises (SOEs), and banking system reform. Because of political and economic constraints, China cannot finish all of these reforms overnight. Therefore, the process of more fully opening the Chinese economy will take a relatively long period. The Chinese government still has a long way to go to build the domestic economic and political basis for major liberalization of its trade regime.

With respect to the trade deficit issue, China argues that the US exaggerated the deficit figure and the US statistics are faulty. China says the 1997 deficit was actually \$16.4 billion rather than \$47.9 billion (US statistics), and it attributes the discrepancy to US accounting methods. Meanwhile, China argues that US export controls against China are a major obstacle for US exports. For these reasons, China has tried to improve trade relations with other countries in the event of possible US trade sanctions.

ANALYSIS OF THE SUBSTANTIVE POLICY

1. THE COMMERCIAL ISSUES

To the US, the most important commercial issue is how the US firms' commercial interests in China can be pursued.

(1) Constructive relations and balanced trade with China directly affect US firms' business expansion in China

US firms' success in China is critical in order for them to maintain global competitiveness. China is the US's fifth largest trading partner. Since 1990, US exports to China have doubled, outpacing the growth of US exports to any other major export market. US manufactured goods, services, and farm exports to Hong Kong and China (a substantial portion of US exports to Hong Kong are re-exported to China) totaled roughly \$35 billion in 1997 (See Exhibit # 2), and support close to 400,000 American jobs. As a large growing market, China can only provide great opportunities to US businesses on the basis of normal trade relations.

(2) Openness of the Chinese market and Chinese trade barriers affect US trade growth

China is one of the most important trading partners of the US, and it is going to play more crucial role in the global economy. Therefore, Chinese trade policies and practices have a substantive impact on the development of US trade.

(3) Only under the same market rule, can US products ensure its competitive advantages

The US has a strong commercial interest in ensuring that Chinese goods entering the US market are produced on the basis of market principles, since China is becoming one of the largest sources of imported goods. Otherwise, such a large amount of Chinese imported goods would distort the US domestic market system.

To China, the most important issue is that the US market is its largest market, and Chinese trade and economic development relies more on the US market.

2. SUBSTANTIVE POLICY ISSUES

For the US government, the most substantive policy issue is how to develop better public support for establishing normal US-China trade relations.

Basic public misunderstanding has put pressure on government and Congress to restrict trade with China. The US government needs to do more to develop better public understanding of the situation in China to ease some of that pressure. The US also needs to revise the basis for calculating the US-China trade and then develop a new value-added balance.

Since the existing misunderstanding of the economic and trade developments in China has affected the public confidence in building normal trade relations with China, the first issue for the US government is to develop an effective strategy for increasing public understanding. US influences could push the Chinese government to further liberalize its trade policies more quickly. However, to wield US influence effectively requires sustained domestic support. The public must grow accustomed to the idea that China may well be America's main foreign policy focus for the foreseeable future. As China grows stronger economically and militarily, the US government needs to conduct constructive US-China trade relations more sensitively.

The second policy issue is how to improve China's trade policy reforms in order to create more opportunities for US industries

The focus of this issue is how to manage China's emergence as a major global power. This will profoundly impact the shape of the global order and the future prosperity of US industries. China has a huge growing market for advanced technologies, equipment and other production materials and certain commodities in which the American aircraft, sophisticated machinery, electronics, chemicals, grain, timber and fertilizer are taking a remarkable share. The Chinese market is now more important to US industries than at any period in history.

The third policy issue is how to ensure that the Chinese government complies with commitments already made, and takes practical steps to further open its markets

Further reform of China's trade policies could provide enormous benefits not only to the US and China, but to the whole world. However China will define its own destiny. The question is, what exactly will China agree to do? It is important for China to understand the seriousness with which the US views the US-China trade relations. Only then can the US push China to take practical steps, such as:

- Further opening its markets and ensuring compliance with commitments already made. Implementation of the 1992 Market Access Agreement, for example, has been uneven.
- Coordinating central government and local government efforts to implement reforms
- Maintaining stability of the Chinese currency
- Improving conditions of building a civil society

For the Chinese government, the first substantive policy issue is what steps China can take to solve the trade deficit issue and to improve the climate for foreigners doing business in China.

At present, the trade imbalance has become a crucial issue for US-China relations. Increasing concerns inside the US seriously affect public and policy-makers' confidence on China trade policy. China must take this issue seriously. Meanwhile, the Chinese government must be aware of the importance of providing a transparent and rule-based trade climate for foreigners doing business in China.

The second key policy issue is how to accelerate its domestic reforms and remain consistent with its long-term economic development objectives.

The Chinese government has correctly identified three linked objectives—the reform of the SOEs, the banking system and the social welfare system—as top priorities. However, during the trade liberalization process, the Chinese government sometimes stopped just short of further reform in order to wait for changes in international and domestic situations. China will not be able to build a solid foundation for long-term economic growth without keeping domestic reform. The Chinese government must be aware of the effectiveness and need of continuous strategic reforms.

The third policy issue is how to further liberalize and reform its domestic regulations in order to provide a more transparent and predictable policy regime

If China wants to take advantage of the opportunities created by the new economic era, it must seek to reform its domestic regulations. The most immediate challenge is to establish transparency and predictability in its regulations. Further more, China needs to move from a system of entry and licensing controls to a regulatory system based on transparent, objective and measurable performance criteria. Such a system will increasingly determine its economic growth and prosperity.

3. THE POLITICAL LANDSCAPE

At present, inside the US and China, almost every issue has a political as well as an economic component. Political disputes heavily shape the US-China trade relationship. Inside the US, the most prominent issues are the following:

The US-China Deficit

American politicians are deeply concerned regarding the increasing US trade deficit with China, but they also should realize the following facts:

- US data on bilateral trade with China are seriously flawed. The Department of Commerce counts US exports to China via Hong Kong as US exports to Hong Kong, but counts as imports from China all Chinese products re-exported from Hong Kong to the US. This process overstates US imports from China. In 1997, this number was 7 billion, and the real trade imbalance with China was 1/3 less than the US government data.
- Compared to the shrinking US-Japan trade deficit, the US deficit with China is likely to continue growing dramatically. This makes the deficit appear to be more than it really is.

- The trade deficit with China primarily reflects its openness to foreign investment, not unfair trading practices. As a result of the liberalization of its domestic economy, in recent years China has attracted about 40% of all foreign direct investment flowing to emerging markets. Foreign investors have moved facilities that produce footwear, garments, toys, sporting goods and other labor-intensive products to China to take advantage of cheap labor. These products also account for a large share of US imports from China.
- The growing deficit the United States has experienced in its trade with China, not surprisingly, has been accompanied by sharply declining deficits with Hong Kong, Taiwan, and Korea. Thus, the argument that the growing deficit with China has caused a large loss of manufacturing jobs in the United States is inaccurate.

China's WTO Accession and Normal Trade Relations (NTR) Renewal

China's WTO accession is important in several respects. While China and the US both want to reach an agreement on the terms of China's entry, China will not gain membership over US objections.

Inside China, remaining import barriers are primarily protecting state-owned industries in order to avoid international competition. Because these state-owned industries still employ almost two-thirds of all urban workers, China's political leadership appears unwilling to risk the high levels of urban unemployment that could result if restructuring was too rapid. Thus, the costs of conforming immediately to expectations of the West on openness to trade are relatively high for China while the gains from membership in the WTO are relatively small. The single most important economic benefit associated with China's membership in the WTO is the permanent most-favored-nation (MFN), now the normal trade relations (NTR) status in the markets of member countries. However, permanent MFN is bestowed by all WTO member countries, except the US. The US has provided MFN status for China one year at a time for more than fifteen years.

1. Serious negotiations on a number of critical issues are only now commencing. A commercially and politically viable agreement must address US industry concerns for opening China's domestic market to US industrial and agricultural goods. Likewise, US service industries deserve access to the Chinese market. Whether China accedes to the WTO in this millennium hinges upon China's willingness to make firm commitments in these areas. Provided the Chinese make these commitments, the United State executive and congressional branches must be prepared to conclude bilateral negotiations and lay the legal groundwork for the United States to apply the WTO to China. Thus, permanent NTR trading status must be extended to China. Failure to do so at the appropriate time would demonstrate bad faith, and damage the United States' economic interests.
2. The US is now facing how to promote reform and liberalization of China's economic, trade, and investment regimes and then bring them into compliance with WTO standards. More importantly, the procedure would require that further reform steps be taken on a specific schedule. Thus the United States should take the lead in drafting a protocol that provides long phase-in periods to mitigate the costs China will face in restructuring its domestic industries to meet the full force of international competition. However, this agenda must be tied to Chinese conditions. This would make the US strategy more realistic and reasonable.
3. China's WTO entry issue has existed for more than ten years. China's membership in the WTO will influence global trade relations in the coming era. All of the trade issues addressed in the WTO constitute a single package of rights and responsibilities that all of its members have

accepted. Therefore, China must come to terms with the legal and commercial commitments required of all WTO members. At the same time, the US should be practical and pragmatic, and where possible, flexible. China is a great nation and a great power. The US could speed-up China's WTO entry by negotiating a constructive accession agreement with China.

US policy tools will be limited to less-effective unilateral levels if China remains outside the WTO. Therefore, the best way to resolve these concerns is with greater communication and increased dialogues, rather than with confrontation.

There is no doubt that healthy US-China trade relations will require ongoing attention to the political as well as the economic challenges for a long time to come. As for China, it still has a long way to go before it has a well-functioning market economy. And it is apparent that China's internal politics will remain unsettled for many years.

DOMESTIC STRATEGY

Establishing A Consensus inside the US

In light of the US-China trade imbalance issue, the US government and business must fully realize the importance of addressing this crucial area.

- The US government, industry and public should work together to build a broad national consensus on the US-China trade relation issue.
- The most important step for US policymakers is to rebuild a bipartisan policy toward China. Doing so will require leadership from the White House and close cooperation with Congress.
- Basic materials should be distributed including a letter from the US-China Trade Promotion Council to the President, as well as industry associations that addresses major concerns of this issue.
- Persuade the Chinese government to take steps through official and industrial organization channels to demonstrate their commitment to improving the trade deficit.

Policy Strategy

The US should adopt a strategy that would:

- Persuade the Chinese government to further open its markets and reform its import policies, such as lower tariffs and avoid using non-tariff measures.
- Treat China as a strategic partner rather than a backlash state. The US government should fully realize that US demands can only be satisfied through China's internal reform.
- Provide export credits to American firms seeking to sell in China that are comparable to those provided to European and Japanese firms by their government
- Work for China's early entry into the WTO, since it is not only in China's interest, but very much in the US national interest
- Seek to provide China permanent NTR status conditional upon evidence that China is in compliance with the protocol governing its participation in the WTO

- Continue to expand US cabinet-level contacts with Chinese ministerial counterparts and enhance the role of formal; bilateral commissions such as the Joint Economic Commission and US-China Joint Commission on Commerce and Trade (JCCT)
- Exchanges between senior officials from various agencies should be regularized.
- Coordinate more effectively with other US trading partners that share analogous concerns about the Chinese market

China should adopt a strategy that would:

- Maintain the stability of the Chinese currency
- Improve conditions for a civil society
- Expand ongoing reform of SOEs, banking system, employment, and insurance system.
- Strengthen the competitive ability of domestic industry in order to create the basis for trade liberalization
- Establish a social welfare system in order to take the social burden from the SOEs and cut the extra product cost with the goal of setting up an efficient and competitive business system
- Embark on an aggressive worker re-training program to help deal with lay-offs of SOEs affected by increased global competition
- Accelerate economic reform according to the Ninth five-year Blue Plan.

Political Strategy

The US political strategy should:

- Make efforts to develop a bipartisan China policy within the US.
- Request the Chinese government to consider the importance of the present trade deficit issue and build consensus with the Chinese government.
- Press the Chinese government to open markets through WTO accession negotiations.
- Press the US Congress to consider the importance of the US-China relation and the achievements of China's open market practices on the annual NTR renewal issue.
- Isolate opponents.
- Deal with China as a more equal partner and maximize reliance on multilateral rather than unilateral sanctions where China's trade practices fall short of internationally accepted norms.
- Abandon use of the bilateral trade imbalance as an indicator of the degree of openness of the Chinese economy or the state of Sino-US relations.
- Provide meaningful multilateral sanctions in the event of violations, and eliminate US unilateral sanctions.

The Chinese political strategy should:

- Make efforts to develop a constructive policy towards the US.
- Build consensus on the benefits of the Chinese economy under a more open markets.
- Build consensus on the importance of continuing domestic economic and administrative reforms.
- Try to persuade industries to improve their competitive ability towards the more open market system.
- Explain to the public that further reform could cause new social problems, such as higher unemployment rate, but the government is trying to minimize the disruption of further reform and trade liberalization.

NEGOTIATION STRATEGY

The development of a negotiation strategy for US negotiators identifies the different parties, their interests and options surrounding the trade relations between the US and China. The negotiation strategy examines US and China preferred outcomes, options, and Best Alternatives to a Negotiated Agreement (BATNA). This project provides:

1. The US strategy
2. The Chinese strategy
3. Negotiating characteristics
4. An analysis of stakeholders' interests (See Exhibit #1)

THE US STRATEGY

KEY FACTORS

The key factors that contribute to the increasing US trade deficit with China are:

- Market access
- Transparency
- Predictability

PREFERRED OUTCOME OF THE US GOVERNMENT

The preferred outcome would be the establishment of a transparent trade policy and more liberalized market access to be provided to the US exporters in China.

NEGOTIATION TACTICS

Acknowledge China's trade liberalization progress, but confirm that China needs to do more in terms of further trade reform. Otherwise, the slow-down of trade liberalization

will affect not only the US-China bilateral trade relations, but also China's entrance to the multilateral trading system—the WTO.

GOALS TO ACHIEVE

- Fair and balanced trade
- Free market access
- Transparency
- Predictability

BATNA

If the bilateral negotiation cannot achieve the preferred outcome, the US trade policy should consider:

- Do nothing
- Make use of the multilateral negotiations on China's WTO entrance to apply pressure on achieving greater Chinese market access
- Trade sanctions
- Revoke NTR

CHINESE STRATEGY

KEY FACTORS

On the Chinese side, the key factors that contribute to the US-China trade deficit are:

- The differences between the US and Chinese statistical systems
- Concerns that further trade liberalization will affect the stability of trade and economic development
- Internal pressure from the state-owned enterprises and financial system reforms
- Internal disputes on the schedule and steps for further trade reform
- Cross-cultural and political differences

PREFERRED OUTCOME FOR THE CHINESE GOVERNMENT

- Draw out the negotiations to allow more time for further trade liberalization
- To protect the Chinese industry, particularly those who lack competitiveness

- Continue the WTO entrance negotiation but try to win more time to address domestic concerns and build consensus inside China
- Build mutual understanding within the US and other key WTO members
- Persuade US to revise basis for calculating bilateral trade

POSSIBLE ARGUMENTS

- The US trade deficit with China is not as large as the US concerns
- China has liberalized its trade system
- China is a developing country with large regional differences in its development
- Normal US-China trade relations will benefit both sides
- China has a huge potential market, so China needs the WTO and WTO needs China.
- A completely opened market will hurt not only the Chinese economy but also the world economy
- A truly global trading system must include China

NEGOTIATION TACTICS

- Present Chinese trade statistics on China-US trade
- Show data on increasing imports from the US
- Help foreigners comply with import procedures
- Negotiate with the US in good faith to prove the Chinese government has solid trade reform plans but needs time to implement them
- In terms of specific products, discuss market access and timing

BATNA

- Do nothing. Wait for progress of the WTO entrance.
- If bilateral negotiation fail, the Chinese government should consider:
 - Deepen state-owned enterprises reform
 - Strengthen stronger competitiveness of the domestic industry
 - Keep the stability of macro-economy
 - Continue bilateral efforts, even if the US does not support China's WTO entrance

NEGOTIATING CHARACTERISTICS

American and Chinese negotiators have significantly different negotiation and problem solving characteristics, which must be considered before and during the formal negotiation process. The following chart provides a better understanding to the cultural background faced during the implementation of the negotiation and different strategies for the US and China.

CATEGORY	AMERICAN	CHINESE
Basic cultural values	<ul style="list-style-type: none"> • Competition • Individual decision-making power • Horizontal business and government relations • Independence • Respect for rich people 	<ul style="list-style-type: none"> • Cooperation • Group decision-making power • Vertical business and government relations • Interdependence • Respect for people in power
Negotiation skill 1. Pre-negotiation	<ul style="list-style-type: none"> • Define preferred outcome • Prefer start formal negotiation directly • Be clear about the commercial objectives 	<ul style="list-style-type: none"> • Set guiding principles • Prefer exchange views before formal negotiation • Be clear about commercial objectives and concern power and prestige
2. Negotiation process	<ul style="list-style-type: none"> • Start with a reasonable position and a clear-cut stand • Available information • Take control and guide the process • Hold the bottom line till the last minute • Use time line to press on counterpart • No go-betweens • Use coercion 	<ul style="list-style-type: none"> • Haggling tradition and bureaucratic delay • Step-by-step trade-offs • Anti-foreign attitudes • Limited and hidden information • Pushing to find the bottom line • Lack of time pressure • Used to making use of go-betweens • Careless of coercion and

	<ul style="list-style-type: none"> • Have decision-making power and some room for possible maneuver 	<p>censure</p> <ul style="list-style-type: none"> • Standing on fixed position and have very little room for maneuver
3. Re-negotiation	<ul style="list-style-type: none"> • Rarely change negotiator • Change negotiation location • Focus on non-negotiating items • Do not like re-opening closed issues 	<ul style="list-style-type: none"> • Change levels of the negotiator if necessary • Change the negotiation location • Avoid non-negotiating item • Raise a closed issue already agreed

MEDIA STRATEGY

Media can be a powerful tool to reach a broad audience.

US MEDIA STRATEGY

The us media strategy provides a plan for using the media to:

- Build public consensus to push the US government to address the US-China deficit issue in a constructive way
- Organize a constructive debate about the US strategy on key US-China trade relation issues, such as the annual MFN renewal, and WTO accession
- Use the Chinese media to convince the Chinese public of the benefits of trade liberalization, such as efficiency, competitiveness and greater product selections

Domestic Media Strategy

- The first step is to reshape public perception about US-China trade relations and address the US-China trade deficit issue at a national level. To accomplish this, a series of press conference will be organized.
- The second step is to make sure that the right information is provided through the press. Editorial, speeches, hearings and debates will be covered by national newspapers, TVs and broadcast programs.
- International trade experts should be used at domestic press conferences, and newspapers to explain the reason and the benefits of the China trade strategy
- Advertising could be used to highlight the need for a constructive China trade policy and to educate public and private sectors
- Newspaper editorials are necessary to analyze the importance of normal US-China trade relations

- Op-ed pieces could be used to stimulate and educate public debate

International Media Strategy

- Open a special item under the US-China Trade Promotion Council home page to address and discuss the US-China trade relation issues
- Organize a press conference in China with a focus on the US-China trade relation issues
- Newspaper articles could be provided to *China Daily* to explain US companies' concerns
- Documentary programs can be provided to *CCTV* international channel in order to educate the Chinese public of the benefits of free trade and normal US-China trade relations

CHINA MEDIA STRATEGY

It will be necessary to implement a domestic and international media strategy that promotes China's market economy and further reform. The government should use the domestic media to educate the public about the benefits of a more open market as well as the necessity of further domestic economic and administrative reform, and use international media strategy to convince the world about China's achievements in building a market economy and further steps towards a more open market.

Domestic Media Strategy

The goals of the domestic strategy are to build a new consensus on US-China trade relations, to explain the benefits of open trade for Chinese companies and workers, as well as acknowledge the challenges of the global trading systems and be prepared to respond to those challenges. Therefore, the domestic strategy needs to reach out to all Chinese.

- Organize a series of press conferences to promote the economic benefits to public, especially all Chinese businesses
- Design a special TV program about the development of normal Sino-US relations and the importance of a balanced trade between these two important nations
- Encourage trade associations and professional organizations to develop and circulate opinion pieces regarding the benefits of more open market and further trade liberalization
- Professional articles should be used in trade magazines and in trade specific press release regarding the increasing trade between China and the US
- International trade and economic experts should be used at press conferences, TV and radio advertising to explain the reasons and the benefits of the continue of economic and trade reform
- Newspaper editors should be encouraged to write editorial pieces analyzing the government's decisions and to stimulate public debate and support
- Schedule interviews with key government and business figures

- Organize a discussion to find more common ground with labor groups, and try to make them understand that they have a stake in the market economy and lay-off workers will be supported by special government programs

International Media Strategy

- Organize a press conference in China regarding the US-China trade relations
- Making use of *China Daily* to have some articles focusing on the achievements China has made towards market economy and further strategy for a more open market
- Making use of *CCTV* international Channel to educate the world the progress China has made

Organize an international conference at the time of the *Twenty Anniversary of China's Open-door Policy*. This can provide a good opportunity to let the world know more about China.

MEDIA STRATEGY

MEMORANDUM

TO: Director of the US-China Trade Promotion Council

FROM: Lijuan Zhang, Advisor

RE: Media Strategy Addressing US-China Trade Deficit

DATE: March 15, 1999

OBJECTIVES AND INTERESTS

The US-China trade deficit has come under increasing criticism recently. The US Congress, industrial organizations, labor and human rights groups have complained about the Chinese trade policy obstacles and further challenges they are facing.

We must develop a comprehensive strategy to emphasize the importance of bilateral trade relations and minimize the concerns of US-China trade deficits. Therefore, we must use the media to brief the public of the real situation regarding the US-China trade deficit and how the US should pursue its future trade relationship with China. If we cannot achieve widespread support, we must at least inform the public that we have made significant progress but further improvements are needed.

FACTS

Convince the public that China is one of the United States' most important trading partners, and that the US-China trade deficit issue can be solved through common efforts of both governments.

- As we look to the future, normal trade relations allows us to conduct a strategic trade policy aimed at ensuring that Americans can achieve the full benefits of trade with China.
- China's economy is already among the largest in the world, and such leading American industries as telecommunications, aviation, services trade and professions, high-tech manufacturing and agriculture would all benefit from better access to China.

- Use all the tools at our disposal –our own trade laws, bilateral talks, regional and multilateral negotiations—to eliminate barriers.
- Sanctions usually fail to achieve political objectives. A recent study on the effectiveness and costs of economic sanctions indicates that the success rate of sanctions in the 1990s was lower than that in the 1980s, and the success rate in the 1980s was lower than that in the 1970s. In other words, while sanctions have been used more frequently, their success in achieving foreign policy objectives is less now than it was thirty years ago. Therefore, sanctions should be abandoned.

TARGET AUDIENCE

Our media strategy should target the top American press, including national newspapers, television and radio outlets. Because the trade deficit issue has very wide influences, we chose these media to influence consumers, interest groups, NGOs, and government officials. Also we will invite interest groups, which favor normal US-China trade relations, to participate our conference in order to convince the public that the US has critical commercial interests with China. For instance, members of American Automobile Manufacturers Association (AAMA) have benefited from their increasing investment in China and China's progress towards a market economy. Therefore, AAMA will be invited to the press conference to express its strong support on a constructive trade policy towards China.

STRATEGY

To educate the public about China's strides in trade liberalization, I recommend the following strategies:

- Conduct a press conference on March 15, 1999
- Have the director of US-China Trade Promotion Council address the US strategy and concerns about bilateral trade deficit issue
- Have the American Automobile Manufacturers Association (AAMA) state its strong support on longstanding US policy of normal trade relations with China
- Develop op-ed articles and advertisements to brief the public, and particularly labor and human rights groups about our strategy for the *Washington Times*, *Financial Times*, *New York Times* and *Monterey County Herald*
- Develop television advertisements to brief the public about our strategy for CNN, ABC, CBS, and NBS
- Expand the dialogue and build new relations with labor, human rights groups, and NGOs by reaffirming the commitment to further improvements in labor practices with credible Chinese representatives from labor unions
- Organize meetings with editorial boards of newspapers

There is a historic opportunity for media coverage in the Spring 1999, because of a scheduled visit by China's Prime Minister Zhu Rongji. Since the trade balance issue is one of the biggest disputes between the US and China, the two governments must have this point on their agenda. Making use of this opportunity to explain US policy and

China's view will help convince both Congress and the public of the importance of normal trade relations. The US-China Trade Promotion Council should:

1. Encourage letters from members and the public on the most promising and realistic structural initiatives to be pursued in the event that the Chinese Premier visits the US.
2. Write a letter to the President of the United States with concerns and strategic recommendations on the trade deficit issue
3. Make use of the official visit opportunity to develop a special TV program on CNN and broadcast program on NPR to educate the world about China's fast growth and the developing US-China relations
4. Inform the public that US interests are best served by a secure, stable and open China.
5. Make use of international media to get a message to the Chinese government and the public that the US shares Chinese views and would like to cooperate with China to resolve remaining disputes between the two countries.

Press Announcements

Press Conference

Date: March 15, 1999

Time: 9:00 AM

Place: Board Room of the US-China Trade Promotion Council

Contacts: Lijuan Zhang

1402 H Street, NW, Suite 777 (831)646-1042

Washington D. C. lzhang@miis.edu

FOR IMMEDIATE RELEASE

US-China Trade Promotion Council to Address National Press Focus on US-China Trade Deficit

Washington D. C., March 15, 1999 – The US-China Trade Promotion Council will deliver an address at the Monterey Institute of International Studies highlighting the US-China trade relations benefiting US industries and interests groups. The speech will begin at 9:00 AM.

Growing concern over the US trade deficit with China has plagued the bilateral relationship in recent years. The deficit has been the focus of discussions at the highest levels of both governments, and it is expected to be on the subject of much of the Congressional debates.

Doors will open at 8:00 AM for media, including television camera setup. There is limited space for cameras, so we recommend arriving early. Speeches will begin between

9:00 and 11:30 AM.

WHO: US-China Trade Promotion Council

WHERE: Board Room of the US-China Trade Promotion Council
1402 H Street, NW, Suite 777 Washington D. C.

WHAT: Speech on US-China Trade Relations

WHEN: 9:00 AM, Monday, March 15

COOPERATION RATHER THAN SANCTION ON THE US-CHINA TRADE DEFICIT ISSUE

**PRESS STATEMENT BY LIJUAN ZHANG,
ADVISOR OF THE US-CHINA TRADE PROMOTION COUNCIL**

March 15, 1999

Ladies and Gentlemen:

Thank you for being here this morning. I am Lijuan Zhang, Advisor of the US-China Trade Promotion Council.

The growing concern over the US trade deficit with China has plagued the bilateral relationship in recent years. China is one of the United States' most important trading partners. The US government, Congress and industry have tried several different ways to press China to further open its markets to US goods and services. Meanwhile, the Chinese side has made great strides in this area and taken active measures to improve its foreign-related economic regime and policies.

Here are the facts:

- A cut in tariffs on more than 4000 tariff lines was introduced in April 1996, bringing down the average tariff from 35.3% to 23%. China has pledged to further lower overall tariff rate to 15% by the year 2000.
- China has taken active steps to phase out non-tariff measures. Only 384 items are subject to the measures today as compared with 1247 before. China has also set forth a timetable to further lift such measures.
- In 1996, the China's currency, Renminbi Yuan, became freely convertible under the current account, enable foreign-invested companies to be free in international settlement and transfer under the current account.
- China has begun to open its market to foreign investors in such services sectors as domestic retailing, finance, insurance, and foreign trade. Five US banks and three US insurers have set up branches in China. US retailers, including the renowned Wal-Mart Co., have also entered the Chinese market.

At present, paralleling with the gradual deepening of its economic reform, China has increasingly strengthened the protection of foreign businesses under its legal system and steadily improved its trade and investment environment. By the year 2000, China will have built up a unified and standard foreign-related economic regime, which will create better conditions and larger markets for world trade. There is little doubt that the US industries will benefit from this change.

Normal trade relations with China are in the US economic, trade, and broader strategic interest. With respects to jobs and growth in America, the effects of ending normal trade relations with China will be severe, because:

- China has become one of the United States' largest agricultural markets and the US exports to China and Hong Kong now support over 400,000 American jobs.
- China has become the power in the Asia-Pacific region and plays a crucial role in its stability. This is in the US broader strategic interest.
- The US trade sanctions against China do not work, but have reduced the US exports to China because of the Chinese retaliation.

Ladies and Gentlemen: Looking to the future, the current US trade frictions with China and our disagreements about the pace of political reform should not become an obstacle in the US-China relationship. On the contrary, the US and China have every reason to work together to open new and better prospects in their trade ties. It serves the fundamental interests of both peoples.

Thank you for allowing me this opportunity to share my views with you. I would be happy to answer any questions that you may have.

INTERNAL QUESTIONS & ANSWERS

1. WHAT ARE THE ECONOMIC EFFECTS OF REVOKING NORMAL TRADE RELATIONS WITH CHINA?

Revoking normal trade relations with China would severely damage American interests and lessen the US ability to promote basic values.

First of all, manufacturers would see the cost of goods made with Chinese components rise sharply, reducing the competitiveness of US goods in domestic and international markets.

Second, if China retaliate against US exports by increasing tariffs and taking other measures, this would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life.

Third, ending normal trade relations with China would derail bilateral and multilateral

the future evolution of the Chinese market.

2. WOULD THE IMPACTS OF ENDING NORMAL TRADE RELATIONS WITH CHINA GO BEYOND TRADE?

Yes. There are, at least, three strategic concerns for the US:

First, ending normal trade relations with China would likely endanger cooperation with China in areas outside trade. It would call into question the recently developed good working relationship against drugs and crime. It would make progress on human rights very difficult or even impossible. And it would threaten national security questions.

Second, ending normal trade relations with China would badly damage Hong Kong, and cause immediate suffering and long-term uncertainty on its future.

Third, ending normal trade relations with China would deal a severe blow to larger US efforts to solve the Asian financial crisis, since this crisis already affects the US economy.

3. HOW LONG WILL CHINA TAKE TO COMPLETELY OPEN ITS MARKETS? AND IF CHINA CANNOT OPEN ITS MARKET RIGHT AWAY, WHAT SHOULD THE US DO?

This is one of the key disputes between China and the US. It seems that China is not willing to fully open its market right away. No country can finish its reform over night. China should be allowed relatively long phase-in periods for dismantling the barriers protecting a few of its most sensitive industries. This would allow China to stretch out the very substantial costs of adjusting to international competition, thus making them politically more palatable.

4. IS THE TRADE DEFICIT ALWAYS A DRAG ON ECONOMIC GROWTH?

Not necessarily. The Asian financial crisis is expected to shave a few tenths of a percentage point off the rate of increase of US GDP in 1998, but blame for slower growth for an expanded trade deficit confuses the cause and effect. The real drag on US economic growth is falling demand in East Asia for American exports. At the same time, falling currency values in East Asia make the region's exports to the US more attractive, leading to a larger American trade deficit. A rising trade deficit is not the cause of slower US growth; instead, slower growth and a bigger trade deficit are both effects of East Asia's economic slowdown.

It is worth noting that trade deficits can be a good sign for an economy when it reflects growing demand for imports. When an economy expands, consumers are able to afford more goods, both domestic and imported. Returns on investment increase, attracting foreign capital. The combination of inflowing capital and higher demand for imports tends to widen the trade deficit. That explains why every recent U.S. economic expansion has been accompanied by an expanding trade deficit.

Without a trade deficit, Americans would need to finance domestic investment

exclusively from domestic savings. To bring investment in line with savings, domestic interest rates would need to rise, reducing investment and economic growth. According to the Council of Economic Advisers, the trade deficit has been a "safety valve" for the expanding US economy. "Imports of goods have kept inflation low, while imports of capital have kept interest rates low, helping to sustain rapid income growth. In the strongly expanding full-employment economy that the United States now enjoys, it should be easier for Americans to see that trade deficits do not necessarily reduce output and employment."

LEGISLATIVE STRATEGY

INTRODUCTION

The legislative strategy is designed to build Congressional support for normal trade relations with China and properly resolve the US-China deficit issue. For this purpose, the US-China trade Promotion Council will testify before the House Subcommittee on Trade of the House Ways and Means Committee.

It is worth noting that this is a new Congress, with a few new leaders and certain familiar figures in new positions. A number of veterans of the China debates are shifting their focus to other congressional priorities while new figures are taking their places with only a modest background on China issues. A period of sorting out of priorities is inevitable, during which China issues will need to be introduced, and structural disagreements over the China policy will still remain. In fact, differences in points of view between the executive and legislative branches of the US government, between various parties, and occasionally between the House and Senate, are likely to be a factor.

Therefore, the legislative strategy should focus not only on the trade deficit issue, but on also other China-related issues, such as Normal Trade Relations (NTR), China's WTO accession, and other trade disputes. This strategy first gives the new Congress the background of the China issue, and then pursues the goal of resolving the trade deficit issue in a proper and effective way.

GOALS AND OBJECTIVES

Goals of this legislative strategy include:

- Educating the government, Congress and the public of the importance of normal trade relations with China
- Support for continued normal trade relations with China
- Minimize negative influences towards China trade policy
- Support extending annual and permanent Normal Trade Relations
- Support China's WTO accession

ACTION PLAN

In order to ensure that Congress support the policy strategy for defusing trade tensions with China, the US-China Trade Promotion Council should:

- Provide members of Congress with valuable and convincing documents in order to urge them to support a constructive and positive China policy
- Meet with key Congressional members to win their support
- Assure Congress that engagement with China is in America's best interests
- Provide testimony to the subcommittee on Ways and Means on the importance of establishing strategic trade relations with China in the 21st century

Prior to meeting with members of Congress and testifying, US-China Trade Promotion Council should determine the views of members of Ways and Means Committee and particularly members of the Trade Subcommittee. The current members are as follow:

Committee on Ways and Means 106th Congress, Committee Membership

Full Committee

Bill Archer (TX), Chairman

Philip M. Crane (IL) Charles B. Rangel (NY)
Bill Thomas (CA) Fortney Pete Stark (CA)
E. Clay Shaw, Jr. (FL) Robert T. Matsui (CA)
Nancy L. Johnson (CT) William J. Coyne (PA)
Amo Houghton (NY) Sander Levin (MI)
Wally Herger (CA) Benjamin L. Cardin (MD)
Jim McCrery (LA) Jim McDermott (WA)
Dave Camp (MI) Gerald D. Kleczka (WI)
Jim Ramstad (MN) John Lewis (GA)
Jim Nussle (IA) Richard E. Neal (MA)
Sam Johnson (TX) Michael R. McNulty (NY)
Jennifer Dunn (WA) William J. Jefferson (LA)
Mac Collins (GA) John S. Tanner (TN)
Rob Portman (OH) Xavier Becerra (CA)
Philip S. English (PA) Karen L. Thurman (FL)
Wes Watkins (OK) Lloyd Doggett (TX)
J.D. Hayworth (AZ) Jerry Weller (IL)
Kenny Hulshof (MO) Scott McInnis (CO)
Ron Lewis (KY) Mark Foley (FL)

Subcommittee on Trade

Philip M. Crane (IL), Chairman

Bill Thomas (CA) Sander Levin (MI)
E. Clay Shaw, Jr. (FL) Charles B. Rangel (NY)
Amo Houghton (NY) Richard E. Neal (MA)
Dave Camp (MI) Michael R. McNulty (NY)
Jim Ramstad (MN) William J. Jefferson (LA)
Jennifer Dunn (WA) Xavier Becerra (CA)
Wally Herger (CA) Jim Nussle (IA)

TESTIMONY OF LIJUAN ZHANG, ADVISOR, US-CHINA TRADE PROMOTION COUNCIL

BEFORE THE HOUSE SUBCOMMITTEE ON TRADE OF THE HOUSE WAYS AND MEANS COMMITTEE ON GROWING US TRADE DEFICIT WITH CHINA

March 22, 1999

Mr. Chairman, members of the Committee:

Good morning. I am Lijuan Zhang, Advisor to the US-China Trade Promotion Council. Established in 1980, the Council is a private, non-profit and non-partisan association of nearly 300 member US companies. Our main function is to help American companies do business in China. The US-China Trade Promotion Council appreciates this opportunity to present its views on the growing US trade deficit with China.

It is a pleasure for me to testify today on this important issue.

There is a vigorous debate in this country concerning the growing US trade deficit with China. This hearing will make an important contribution to that discussion, and will help clarify some important policy decisions. I will also address US interests regarding this issue, and this hearing should contribute, in general, to a better public understanding.

There are many reasons for the increasing trade deficit with China, including the large-scale shift of labor-intensive, export processing operations from other parts of Asia to China, the strength of the US economy, and the trade barriers US companies face in the Chinese market. However, make no mistake about this issue. Today, China is the world's tenth largest trading nation and the United States' fifth largest trading partner. Americans have a huge commercial stake in China. Therefore, in addressing the deficit, we need to remove the barriers confronting American exports to China and resist the temptation to create barriers to imports from China. American consumers welcome China's inexpensive products, as well as American manufacturers who depend on Chinese inputs for their products. In a word, our basic goal is not whether to endorse Chinese policies,

We are pursuing this goal with all the tools at our disposal, including WTO accession negotiations and continued bilateral trade efforts. Progress in these talks would certainly be made based on our normal trade relations with China.

Normal trade relations with China is in our economic interests since China is one of the fastest growing markets for US exports, and since exports to China and Hong Kong support over 400,000 American jobs.

Normal trade relations with China is also in our boarder strategic interest. One example is China's response to the Asian financial crisis. China not only contributed to the recovery packages but also has resisted pressure to devalue its currency.

By contrast, without normalizing trade relations, China would likely retaliate against US exports by increasing tariffs and other measures. China has threatened such actions in the past in response to our use of trade sanctions. This would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life. Their jobs and the export opportunities of their employers would go to Japan, Europe and other competitors. Additionally, the effects will go beyond trade, and derail our bilateral and multilateral negotiations.

We strongly urge Congress to conduct a strategic trade policy aimed at ensuring that America's interests can be fully protected in addressing our trade relationship with China.

As we have seen, during the past several years, China has significantly liberalized its markets for many US products. Also, China's trade regime is now more transparent than in the past. Additionally, China has lowered tariffs on many products and has eliminated over 1000 non-tariff barriers.

With respect to the trade deficit issue, we need to recognize that the current method of calculating the trade deficit is misleading while there is a deficit which is not as large as the US reported.

Chinese tariff and non-tariff trade barriers do create market access obstacles for US goods and services and contribute to the trade deficit. US trade policy is to eliminate these barriers, gain more market access, and create a more transparent trade regime. Because of these and other frustrations, some members of Congress conclude that we should impose trade sanctions on China and revoke normal trade relations. We recognize that we are not yet where we want to be in our strategic dialogue with China; China has not yet evolved as thoroughly or as rapidly as most of us have hoped. But, we strongly believe that the potential for further progress in China and for overall advancement of American interests is far greater through continued dialogue than through revocation of MFN and imposing trade sanctions.

Congress is again faced with a decision whether to pursue a positive agenda for trade relations or isolate itself from China. As we look to the future, we have substantial benefits with China. China's economy is already among the largest in the world, and such leading American industries as telecommunications, aviation, the service trades and

China's markets.

Mr. Chairman, members of the Committee, our aim is to find an effective way to eliminate trade barriers and gain market access in China. We also need to take a long-term view. No matter how much we might wish, we will not be able to transform the Chinese economy, society and government overnight. With all due respect, there is not a single piece of legislation by the US Congress, nor a single act of the President that could accomplish such a feat. Promoting positive change in China's domestic and foreign policies is a long-term venture that will require the broad and steady support of the American people and the international community alike.

Thank you for allowing me this opportunity to share my views with you. I would be happy to answer any questions that you may have. Thank you.

QUESTIONS AND ANSWERS

1. BILATERAL TRADE DEFICIT PROVES UNFAIR TRADE BARRIERS. THEREFORE, COUNTRIES WITH WHICH THE US HAS DEFICIT MUST BE A CLOSED MARKET FOR US EXPORTS.

Many Americans are convinced that a bilateral trade deficit proves that the foreign country's market is relatively closed to American exports compared with the "open" US market. America's large bilateral deficit with Japan almost unanimously is seen as a problem by US policymakers who share that view, with blame for the deficits placed squarely on "unfair" foreign trade barriers.

A survey of America's major trading partners challenges that assumption. Countries with which the US runs large deficits are not necessarily more protectionist toward American exports than are those with which it runs a surplus. Canada and Mexico, two countries that are very open to American exports thanks in part to NAFTA, are both among the five countries with which the U.S. has the largest bilateral trade deficits. On the other side, America's third highest bilateral trade surplus is with Brazil, a country whose barriers to imports remain relatively high. Americans face a common external tariff when exporting to members of the European Union, yet some EU members (the Netherlands and Belgium) are among the top surplus trade partners, and others (Germany and Italy) are among the top deficit partners. Trade policy can not explain those differences.

2. WHAT ARE THE DIFFERENCES BETWEEN US-JAPAN AND US-CHINA TRADE DEFICIT?

The main reason the US's bilateral trade deficit with Japan exploded in the 1980s is that the Japanese government lifted many of its capital controls with the passage of the Foreign Exchange and Foreign Trade Control Law in December, 1980. This allowed a tidal wave of Japanese savings to flow across the Pacific to the US, where it could draw a more favorable rate of return. Despite the common perception, Japan actually was more open to US exports in the 1980s than in the 1960s and 1970s, when American bilateral trade deficits with Japan were much smaller.

As for China, despite substantial progress in the last 10 years, its barriers to imports remain relatively high. Those barriers partly explain the bilateral surplus China runs with the US, but the primary explanation is more benign: Americans like to consume the products China sells. In 1995, the Council of Economic Advisers concluded: "China's persistent surplus with the United States in part reflects its specialization in inexpensive mass-market consumer goods. China similarly runs bilateral surpluses with Japan and Europe for this reason."

If China were to further open its markets, America's bilateral deficit with China would probably shrink, but the US over-all trade deficit, determined by aggregate savings and investment, would remain largely unaffected. A rising dollar, caused by increased demand for American exports to China, would lead to larger bilateral deficits (or smaller surpluses) with other US trading partners. If the US were to impose higher

tariffs aimed at imports from China (say, by revoking its Most Favored Nation status), that might reduce the bilateral deficit, but not the over-all US trade deficit. Higher tariffs against Chinese imports would merely shift some of the bilateral trade deficit to other countries while raising prices for American consumers.

3. ONCE CHINA BECOMES A WTO MEMBER, IT MAY NOT FULFILL ITS OBLIGATION. IF THIS OCCUR, WHAT CAN THE US DO?

This is an assumption based on China's successful entry to the WTO. If this occur, the US still has useful tools to avoid possible trade damage.

First, as China assumes obligations under various provisions of the WTO, the US and other WTO members can use the WTO dispute-resolution procedures to challenge it on trade practices that appear to be in violation of the Uruguay Round Treaty.

Secondly, China should undertake commitments on future reform, which will be subjected to WTO review procedures.

However, the US should ensure that overall US interests are best served through facilitating China's further integration into the world economy.

4. WILL THE US TRADE DEFICIT WITH CHINA GROW FASTER IN 1998?

In my opinion, the deficit will rise more slowly or even decline in absolute terms as a result of the Asian financial crisis. While most PRC exports cannot simply be substituted by goods from South Asian countries, which tend to produce higher-tech and higher value-added goods, Southeast Asia and Korea do produce textiles, light industrial products, and electronics that US importers could substitute for Chinese goods. To the extent that US firms begin to import more of such goods from Korea and Southeast Asia, rather than from China, the US-China deficit should narrow. Further, a reduction in new export processing investment in China from Southeast Asia could slow China export growth. This should ease upward pressure on the US trade deficit with China.

A WHITE PAPER ON THE US-CHINA TRADE DEFICIT

INTRODUCTION

The aim of this White Paper is to find a constructive way of addressing the importance of normal US-China trade relations with respect to the concerns of the trade deficit issues.

The White Paper is in three parts. The first part sets out the background and provides an analysis of the current situation. The second part sets out the policy options. In the third part, the US-China Trade Promotion Council sets out its views on how both governments can move this issue forward.

PART ONE: BACKGROUND AND ANALYSIS

US-CHINA TRADE DEFICIT

The US-China relationship is one of the most important bilateral relationships in the world. Developing US-China trade relations serves the fundamental interests of both sides. At present, the United States is one of the fastest growing markets for Chinese exports while China is also one of the fastest growing markets for US exports. Although there is disagreement over the method used to arrive at the figures, there is a growing trade deficit with China. Because of each side's relative position in global trade, they deal with a number of complex issues. However, in recent years, the growing US trade deficit with China symbolizes for most Americans an inequity in the US-China trade relationship.

US trade with China has risen rapidly since the 1980s. Total trade between the two nations rose from \$4.8 billion in 1980 to 75.4 billion in 1997—making China the 4th largest US trading partner. Over the past few years, the US trade deficit with China has grown significantly. In 1988, the US had a \$3.5 billion trade deficit with China, but in 1997, it surged to \$49.7 billion, making China the second largest trading partner of the US, behind Japan. If this trend continues, the US trade deficit with China is on pace to surpass the trade deficit with Japan in a few short years. This has become a focal point in the annual Congressional debate over renewing China's MFN.

CAUSE OF THE TRADE DEFICIT

The total trade deficit with China has many sources. Chief among them are:

- Shifts of production among the Asian economies
- Strength of the US economy
- Tariff and non-tariff barriers in China, which also restrict the flow of goods and services between China and the US.

First of all, Asian countries and trading partners, such as Hong Kong and Taiwan, have shifted production of a wide variety of labor-intensive products (such as shoes, toys, and electronic products) into China to take advantage of China's relatively low-cost labor supply. The final products are then exported to the US.

Secondly, in recent years, the US economy has performed well and has created higher demand for imported Chinese consumer goods, which are mainly low-cost and labor intensive products. This leads to the strong growth of US imports of toys, footwear, electronic machinery, and apparel from China.

Finally, with respect to China's trade regime, tariff and non-tariff trade barriers still exist, which block access to its markets for many US goods and services. This also contributes to the US trade deficit with China, such as:

1. Broad structural impediments, including transparency and trading rights
2. Imports restrictions and market access obstacles, including tariffs and non-tariff measures
3. Restriction on trading rights

The US has pressed China to lower its trade barriers and further open its market to US goods and services. However, more needs to be done by the Chinese government.

PART TWO: POLICY OPTIONS

CRITERIA FOR ACTIONS

Any policy toward China must serve broader America interests. The key trade issues with China concern:

- Bringing multilateral pressures on China would serve America's interests better than going it alone in bilateral negotiation.
- Extending permanent MFN status to China should work better than revocation.
- Communication and dialogue are better than trade sanction
- Engagement is better than isolation

POLICY OPTIONS

The United States recognizes that the key steps to resolve the trade imbalance issue include:

1. Ensure market access for US goods and services
2. Ensure that China's commitments already made evolve into actions and realities
3. Bind China to WTO rules and standards

4. Improve transparency and trading rights
5. Use US trade laws, bilateral talks and multilateral negotiations to eliminate trade barriers

To make these steps a reality, the US must:

- Restore public confidence
- Promote bilateral conversation
- Use WTO membership to accelerate China's trade reform
- Encourage and assist China in establishing a civil society
- Conduct a constructive strategy for China trade

The United States stands ready to cooperate in any and all fora to begin bilateral and multilateral talks. Maintaining good relations with China is in America's interests and will advance American economic prosperity. China, too, must bear its share—living up to its responsibilities to take concrete, meaningful steps to address areas of concern and to accept the burdens of a major power. Benefits travel both directions. Therefore, the United States continues to work together with China to find mutually beneficial solutions on this important trade issue. This is the only way to peace, stability and economic prosperity for both sides.

PART THREE: LESSONS FOR THE FUTURE

GOALS AND PRINCIPLES

Important gaps exist in trade between China and the US. Both sides are using multilateral and other channels to address these issues. The US needs to remove the barriers confronting American exports to China and resist the temptation to create barriers to imports from China. The basic goal is to protect fundamental US interests related to the US-China relationship. The US is pursuing this goal with all available means, including WTO accession negotiations and continued bilateral trade efforts.

FACTS WHICH MUST BE CONSIDERED

When addressing the trade deficit issue, we must consider the following facts:

- U.S. data on bilateral trade with China are seriously flawed. The Department of Commerce counts US exports to China via Hong Kong as US exports to Hong Kong, but counts as imports from China all Chinese products re-exported from Hong Kong to the US. This process overstates imports from China.
- Since the US deficit with Japan is shrinking dramatically, in comparison, the US deficit with China is likely to increase. In fact, the U.S. deficit with China is not

increasing that rapidly.

- The trade deficit with China primarily reflects its openness to foreign investment. This then reflects the surplus on capital account rather than current account. Therefore, no simple conclusion, for instance unfair trade practices, can be drawn without more thorough analysis.

These facts cannot explain the key causes of the trade deficit, but will only help in furthering an understanding.

In response to the trade imbalance issue, China has published a white paper, which states the position and viewpoints of the Chinese government on the Sino-US trade balance issue. The Chinese government explained the main causes of the bilateral trade imbalance, which include statistical difference between two countries, the effects of Rule of Origin, and the US export control against China. China insists that the US deficit with China have been exaggerated by the American statistical method. According to Chinese statistics, China trade surplus with the US was \$16.4 billion rather than \$49.7 billion (the US statistics), and it attributes the discrepancy to US accounting methods.

The US recognizes that China has taken steps to improve its trade regime. These include:

1. Lowered tariffs. By October 1997, the overall tariff rate has been reduced to 17%.
2. In 1996, the Chinese currency, Renminbi Yuan, became freely convertible under current account.
3. Open market for foreign services sectors and many agricultural products
4. Made its foreign-related trade regime much more transparent
5. Eliminated more than 1000 non-tariff import barriers
6. Granted private manufacturing enterprises and research institutes direct import and export rights from January 1, 1999.

It has been recognized by both US and China that China still has a long way to go toward a more open and transparent trade system.

CHINA IN AMERICA'S FUTURE

As China's economic stature grows, its impact on global economic, political, and military affairs will become stronger than ever. The US relationship with China will be critical to the stability of the world, particularly the Asian Pacific region.

China will remain one of the America's key relationships. The US government's approach to China should be based on shared interests and mutual respect. These principles provide the basis for a realistic frame work and offer the best prospects to maximize shared economic interests, advance America's political and strategic interests, and manage differences in a shared and practical way.

and Congress should seek to expand cooperation in those areas where two countries have common interests. As two nations with different traditions, cultures, and political systems, there will be some issues on which the two nations do not share the same view. Any such differences are best addressed through dialogue and good communication and in the context of a broad and mature relationship.

EXHIBITS

EXHIBIT #1

INTEREST ANALYSIS FOR NEGOTIATION STRATEGY

PEOPLE	INTERESTS	OPTIONS	OBJECTIVE CRITERIA	BATNA
<p style="text-align: center;">THE U.S. GOVERNMENT</p>	<ul style="list-style-type: none"> • Improve normal trade relations • Expansion of US trade • Decrease trade deficit • Liberalization according to WTO rules • Eliminate trade barriers • Increase exports • Reduce costs • Increase profits • Fair trade • Open market access • Gain largest market 	<ul style="list-style-type: none"> • Bilateral negotiation with Chinese government • China's WTO entry • Pursue fair trade practices • Increase technical assistance to clear path to improvement • Make use of annual NTR renewals 	<ul style="list-style-type: none"> • IMF Balance of Payment • World Bank Statistics • Griswold, Daniel, <p style="text-align: center;"><i>America's maligned and Misunderstood Trade Deficit</i></p> <p><u>USA Today</u>, Nov. 1998</p>	<ul style="list-style-type: none"> • DO nothing • Continue to negotiate with China • Delay China's WTO entry • Lower membership price for China • Impose trade sanction • Take any decisive action

	value	l <ul style="list-style-type: none"> • Press China open market • Educate Chinese government the benefits of free trade • Pressure China to approve market open on specific products 		
USTR	<ul style="list-style-type: none"> • Improve trade relations • Expansion of US trade • Decrease trade deficit • Listen to concerns • Liberalization according to WTO rules • Eliminate trade barriers • Fair trade 	<ul style="list-style-type: none"> • Bilateral negotiation with MOFT EC • China's WTO entry • Increase technical assistance to clear path to improvement 	<ul style="list-style-type: none"> • IMF Balance of Payment • World Bank Statistics • Griswold, Daniel, <p><i>America's maligned and Misunderstood Trade Deficit</i></p> <p><u>USA Today</u>, Nov.1998</p>	<ul style="list-style-type: none"> • Do nothing • Put the negotiate with China back on track • Trade sanctions • Revoke NTR • Delay China's WTO negotiation

	<ul style="list-style-type: none"> Gain largest market value 	<ul style="list-style-type: none"> Take use of annual NTR renewal Press China to open market 		
--	---	--	--	--

THE U.S. INDUSTRY (GROUP#1)* AFL-CIO	<ul style="list-style-type: none"> Fair trade practices Human rights Labor rights 	<ul style="list-style-type: none"> Lobby Congress revoke China's NTR 	<ul style="list-style-type: none"> Universal Declaration of Human Rights 	<ul style="list-style-type: none"> Do nothing Interests group allies Boycott
THE U. S. INDUSTRY (GROUP#2)* AAMA	<ul style="list-style-type: none"> Increase market share Investment in China Gain profits Business opportunities 	<ul style="list-style-type: none"> Favor China's NTR Lobby Congress to strengthen the US-China relations 	<ul style="list-style-type: none"> China's market value to auto industry 	<ul style="list-style-type: none"> Do nothing Continue lobbying Decrease investment
	<ul style="list-style-type: none"> Improve trade relations Accomplish WTO entry Gain normal trade 	<ul style="list-style-type: none"> Deepen domestic economic and administrative reform Educate public the importance 	<ul style="list-style-type: none"> IMF Balance of Payment World Bank Statistics Griswold, Daniel, <p><i>America's maligned and</i></p>	<ul style="list-style-type: none"> Do nothing Wait for WTO negotiation progress

<p>CHINESE GOVERNMENT</p>	<p>status</p> <ul style="list-style-type: none"> • Protect domestic industry • Block foreign imports • Political stability • Economic development • Trade growth 	<p>e of normal US-China trade relations</p> <ul style="list-style-type: none"> • Bilateral negotiation with USTR • Limit imports • Support domestic industry • Continue progress on building a civil society 	<p><i>Misunderstood Trade Deficit</i></p> <p><u>USA Today</u>, Nov.1998</p>	<ul style="list-style-type: none"> • Continue bilateral efforts • Use retaliation against the US sanction
<p>MINISTRY OF FOREIGN TRADE AND ECONOMIC COOPERATION (MOFTEC)</p>	<ul style="list-style-type: none"> • Improve trade • Accomplish WTO entry • Gain normal trade status • Protect domestic industry • Block foreign imports 	<ul style="list-style-type: none"> • Formulate and implement government's foreign trade policies • Bilateral negotiation with USTR • Limit imports • Support domestic industry 	<ul style="list-style-type: none"> • IMF Balance of Payment • World Bank Statistics • Griswold, Daniel, <p><i>America's maligned and Misunderstood Trade Deficit</i></p> <p><u>USA Today</u>, Nov.1998</p>	<ul style="list-style-type: none"> • Do nothing • Continue bilateral efforts • Trade retaliation
<p>CHINESE INDUSTRY</p>	<ul style="list-style-type: none"> • Avoid foreign competition • Market share 	<ul style="list-style-type: none"> • Government support • Strengthen competition and 	<ul style="list-style-type: none"> • Employment • Increasing productivity 	<ul style="list-style-type: none"> • Do nothing • Wait out the process

	<ul style="list-style-type: none"> • Government protection • Gain profits • Business opportunities 	<p>efficiency</p> <ul style="list-style-type: none"> • Reform SOEs system 	<ul style="list-style-type: none"> • Stable development circumstance 	<ul style="list-style-type: none"> • Continue to lobby government • Boycott
--	---	--	---	---

**AFL-CIO—American Federation of Labor-Congress of Industrial Organizations*

**AAMA—American Automobile Manufacturers Association*

EXHIBIT #2

US EXPORTS TO HONG KONG AND CHINA BY STATE 1996

STATE	TOTAL EXPORTS TO H.K & CHINA	EXPORTS TO HONG KONG	EXPORTS TO CHINA	TOP EXPORTS
California	4,949	3,248	1,701	Electronics, non-electric machinery, transportation equipment, food, instruments medical cont.
Washington	2,331	844	1,487	Transportation equipment, food, paper, primary metal products, agriculture products
Texas	2,391	1,065	1,254	Electronics, chemicals and allied products, agriculture products, non-electric machinery, instruments medical cont.
New York	1,634	1,209	425	Miscellaneous mfg. prod., non-electric machinery, instruments medical cont., chemicals and allied products, electronics
Illinois	1,217	550	667	Electronics, non-electronic machinery, chemicals and allied products, food, primary metal products

Louisiana	1,189	117	1,072	Agriculture products, food, chemicals and allied products, paper, non-electric machinery
Florida	768	187	581	Chemicals and allied products, electronic, non-electronic machinery, instruments medical cont., transportation equipment
Arizona	632	404	228	Electronics, agriculture products, non-electronic machinery, fabricated metal products, metal mining
Oregon	562	497	65	Electronics, non-electronic machinery, leather, instruments medical cont., food
North Carolina	544	247	297	Chemicals and allied products, non-electronic machinery, primary metal products, electronics, paper
Georgia	496	288	208	Paper, food, electronics, non-electronic machinery, textiles
Massachusetts	480	338	142	Non-electronic machinery, electronics, instruments medical cont., textiles, chemicals and allied products
Ohio	436	233	203	Non-electronic machinery, chemicals, instruments medical cont., electronics, transportation equipment
Tennessee	430	223	207	Chemicals, agriculture products, non-electronic machinery, electronics, instruments medical cont.
Other	7,948	4,506	3,442	
Total U.S. exports	25,935	13,956	11,979	

**Compiled from U.S. Department of Commerce Statistics. These statistics represent state-generated exports.*

EXHIBIT # 3**US TRADE WITH CHINA (1998)***In millions of dollars*

Month	Exports	Imports	Balance
January	1211.7	5452.4	-4240.7
February	1055.8	4553.5	-3497.7
March	1037.4	4800.4	-3763.0
April	986.3	5263.2	-4276.9
May	893.5	5527.5	-4634.0
June	1321.2	6028.7	-4707.5
July	1116.7	6536.5	-5419.8
August	887.9	6796.4	-5908.5
September	1212.1	7115.5	-5903.4
October	1847.3	7384.6	-5537.3
November	1336.9	6370.9	-5034.0
December	1351.2	5326.4	-3975.2

YTD	14258.0	71155.9	-56897.9
-----	---------	---------	----------

Source: US Census Bureau; Foreign Trade Division; Washington D. C. 20233

EXHIBIT # 4

TOP TEN COUNTRIES WITH WHICH THE US TRADES

For the month of December 1998

The valued given are for imports and exports added together. These countries represent 71.71% of US imports and 63.82% of US exports in goods.

IN BILLIONS OF US DOLLARS

COUNTRY NAME	TOTAL	YEAR TO DATE TOTAL
CANADA	27.14	329.00
JAPAN	15.16	179.87
MEXICO	14.34	173.72
GERMANY	7.48	76.47
CHINA	6.68	85.41
UNITED KINGDOM	5.94	73.86
KOREA	4.51	40.47
TAI WAN	4.50	51.28
FRANCE	3.73	41.81
SINGAPORE	3.06	34.03

Source: US Census Bureau; Foreign Trade Division; Washington D. C. 20233

EXHIBIT # 5

TOP TEN COUNTRIES WITH WHICH THE US HAS A TRADE DEFICIT

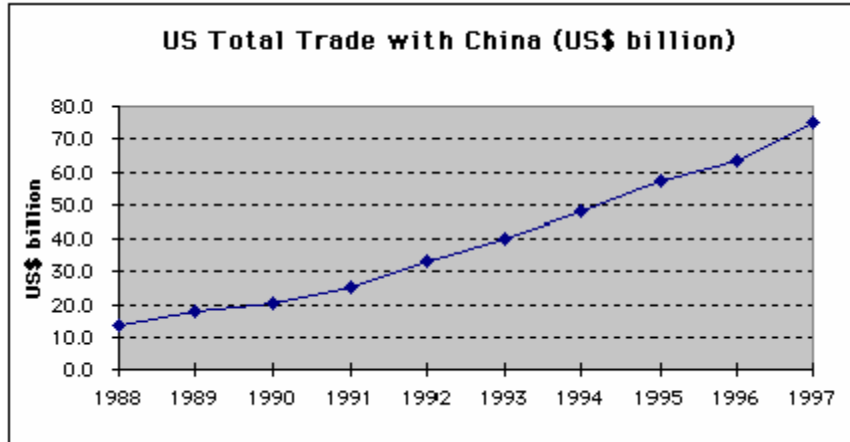
For the month of December 1998
In millions of US dollars

COUNTRY NAME	DEFICIT	YEAR TO DATE DEFICIT
JAPAN	-5876.79	-64093.71
CHINA	-3975.19	-56897.91
GERMANY	-2546.42	-23182.06
CANADA	-2177.77	-20691.60
MEXICO	-1255.10	-15698.58
TAI WAN	-1158.33	-14965.77
ITALY	-1034.53	-11985.79
MALAYSIA	-949.75	-10048.57
SWEDEN	-522.90	-4017.33
PHILIPPINES	-336.24	-5212.71

Source: US Census Bureau; Foreign Trade Division; Washington D. C. 20233

EXHIBIT #6

US TOTAL TRADE WITH CHINA



	1991	1992	1993	1994	1995	1996	1997	Jan-Mar 1997	Jan-Mar 1998	% Change '98 vs. '97
US Exports (F.A.S.)	6.2	7.5	8.8	9.3	11.8	12.0	12.8	2.8	3.3	17.9%
US Imports (C.I.F.)	19.0	25.7	31.5	38.8	45.6	51.5	62.5	12.5	14.8	18.4%
Total Trade	25.2	33.1	40.3	48.1	57.4	63.5	75.3	15.3	18.1	18.3%
US Trade Balance with China	(12.8)	(18.2)	(22.8)	(29.5)	(33.8)	(39.5)	(49.7)	(9.7)	(11.5)	18.6%

EXHIBIT #7

TOP US IMPORTS FROM CHINA (US\$ million)

#	Harmonized Tariff Schedule	Chapter	1996	1997	January-March		
					1997	1998	% Change
85	Electrical Machinery & Equip.		8,900.3	10,553.9	1,815.9	2,426.8	33.6%
95	Toys		7,504.4	9,364.7	1,356.4	1,839.8	35.6%
64	Footwear		6,391.6	7,414.9	1,756.0	1,941.6	10.6%

61,62	Apparel	5,025.6	5,998.0	1,281.1	1,226.7	-4.2%
84	Power Generation Equipment	4,475.8	5,983.5	1,372.3	1,769.2	28.9%
94	Furniture	2,392.6	3,018.1	662.7	796.5	20.2%
42	Leather & Travel Goods	2,625.2	2,959.6	531.4	546.3	2.8%
39	Plastics	1,740.9	1,980.8	424.9	484.7	14.1%
90	Medical Instruments	1,538.3	1,975.4	371.8	492.8	32.5%
72,73	Iron & Steel	879.4	1,086.6	263.3	284.5	8.1%

SOURCE: US Department of Commerce

EXHIBIT #8

TOP US EXPORTS TO CHINA (US\$ million)

#	Harmonized Tariff Schedule	January-March				% Change
		1996	1997	1997	1998	
84	Power Generation Equipment	2,303.8	2,477.0	476.1	563.1	18.3%
88	Air & Spacecraft	1,708.4	2,122.6	358.4	812.7	126.8%

85	Electrical Machinery	1,433.2	1,520.1	311.9	346.1	11.0%
31	Fertilizer	891.1	1,049.8	307.0	180.8	-41.1%
90	Medical Instruments	487.6	627.4	133.6	145.9	9.2%
52	Cotton, Yarn, & Fabric	729.7	577.5	205.3	86.2	-58.0%
39	Plastics & Articles	402.9	432.3	95.9	105.1	9.6%
12	Oil Seeds	427.5	428.6	44.6	66.0	48.0%
48	Paper & Paperboard	250.5	260.1	56.5	72.8	28.8%
27	Mineral Oils	67.8	231.9	124.6	58.6	-53.0%

SOURCE: US Department of Commerce

EXHIBIT #9

CHINA'S TRADE BALANCE WITH MAJOR TRADING PARTNERS (IMF STATISTICS)

1992
Balance

1993
Balance

1994
Balance

1995
Balance

1996
Balance

Hong Kong	(10,373.0)	(8,303.0)	(11,195.0)	(11,876.0)	(11,776.0)
USA	(19,943.0)	(22,416.0)	(32,075.0)	(36,772.0)	(42,430.0)
Japan	(5,005.0)	(3,298.0)	(8,882.0)	(13,988.0)	(18,578.0)
South Korea	(1,071.0)	1,222.0	740.0	1,797.0	2,953.0
Germany	(3,795.0)	(2,531.0)	(3,167.0)	(3,643.0)	(4,689.0)
France	(2,107.0)	(2,168.0)	(1,878.0)	(2,503.0)	(3,504.0)
Singapore	(1,140.0)	(499.0)	(787.0)	(1,283.0)	(1,045.0)
Italy	(1,307.0)	(135.0)	(845.0)	(1,224.0)	(1,157.0)
Australia	(324.0)	(445.0)	(424.0)	(578.0)	(198.0)
Canada	(233.0)	(1,088.0)	(1,235.0)	(1,091.0)	(1,544.0)

EXHIBIT #10

US MERCHANDISE TRADE BALANCES

U.S. Merchandise Trade Balances:
Full Year 1997 vs. 1996
(Billions of dollars)

U.S. Merchandise Trade Balances: Full Year 1997 vs. 1996

(Billions of dollars)

Balance

Exports

Imports

	1997	1996	1997	1996	1997	1996
TOTAL	-\$181.8	-\$170.2	\$688.9	\$625.1	\$870.7	\$795.3
Canada	-16.6	-21.7	151.5	134.2	168.1	155.9
EU	-16.7	-15.2	140.8	127.7	157.5	142.9
U.K.	+3.8	+2.0	36.4	31.0	32.7	29.0
Germany	-18.6	-15.5	24.5	23.5	43.1	38.9
France	-4.7	-4.2	16.0	14.5	20.7	18.6
Italy	-10.4	-9.5	9.0	8.8	19.4	18.3
Japan	-55.7	-47.6	65.7	67.6	121.4	115.2
Mexico	-14.5	-17.5	71.4	56.8	85.8	74.3
Brazil	+6.3	+3.9	15.9	12.7	9.6	8.8
Taiwan	-12.2	-11.4	20.4	18.5	32.6	29.9
Korea	+1.9	+4.0	25.1	26.6	23.2	22.7
OPEC	-20.5	-22.0	25.6	22.3	46.1	44.3
China	-49.7	-39.5	12.8	12.0	62.6	51.5
Eastern Europe	-0.7	+0.3	7.7	7.3	8.4	7.0

SOURCE: US Department of Commerce

EXHIBIT #11

TWO VIEWS OF US TRADE DEFICIT WITH CHINA

1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997

Trade Deficit with China 2.8 3.5 6.2 10.4 12.8 18.2 22.8 28.5 33.8 39.5 49.7

PRC Calculation of US

Trade Deficit with China -1.8 -3.3 -3.5 -1.4 -1.8 -0.3 6.3 7.5 8.6 10.5 16.3

**Source for US view: US Department of Commerce*

**Source for PRC view: PRC General Administration of Customs,
China's Customs Statistics Monthly*

EXHIBIT #12

CHINA'S TRADE DEFICIT WITH THE WORLD

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Jan- Apr 1997	Jan- Apr 1998	%Change Jan-Apr '98 vs. Jan- Apr '97
Exports	47.5	52.5	62.1	71.9	84.9	91.7	121.0	148.8	151.1	182.7	50.3	56.2	11.7%
Imports	55.3	59.1	53.3	63.8	80.6	104.0	115.6	132.1	138.8	142.4	40.0	41.3	3.2%
Total	102.8	111.7	115.4	135.7	165.5	195.7	236.6	280.9	289.9	325.1	90.3	97.5	8.0%
Balance	-7.8	-6.6	8.7	8.1	4.4	-12.2	5.4	16.7	12.2	40.3	10.3	14.9	44.7%

SOURCES: *PRC General Administration of Customs, China's Customs Statistics
Monthly,
Hong Kong Standard*

NOTE: *According to China's official statistics, exports are reported on a F.O.B. basis
and
imports on a C.I.F. basis.*

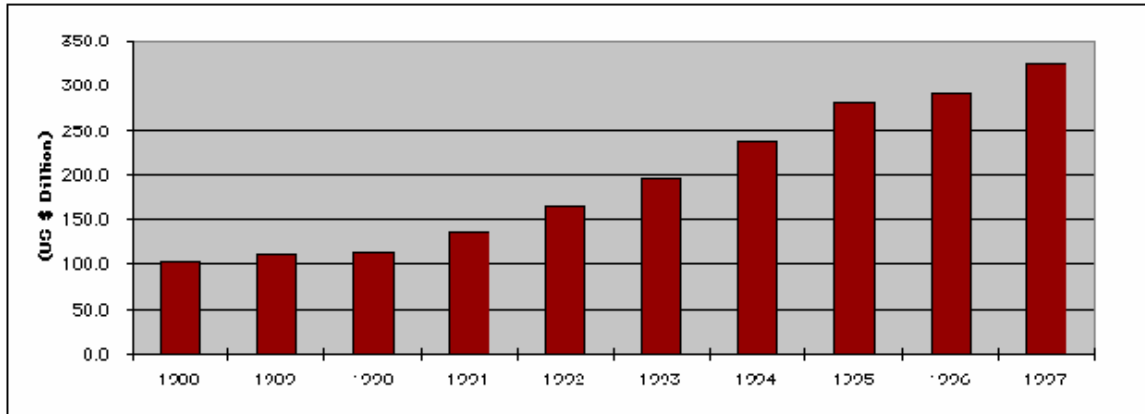


EXHIBIT #13

POST CONGRESSIONAL VOTES ON CHINA'S TRADE STATUS

- 1990 House vote against China's trade status: 247-174. No Senate vote
- 1992 vote on presidential veto of legislation that would have set strict conditions on China: House, 357-61, overriding veto; Senate, 60-38, sustaining veto.
- 1996 House vote maintaining China's trade status: 286-141
- 1997 House vote maintaining China's trade status: 259-173
- 1998 House vote maintaining China's trade status: 264-166

*Source: <http://www.capitolhillblue.com/june1997/pastjun30.htm>

EXHIBIT #14

1996 POLL ON US-CHINA RELATIONS

According to a 1996 poll conducted by Wirthlin Worldwide, a reputable polling firm in Washington, D.C., for the Committee of 100 (a group of well-known Chinese-Americans), there are strong indications that U.S.-China relations are under severe strains.

The poll was taken in mid-April 1996. The number of respondents is not disclosed.

1. On a scale of 0 to 100 (100 meaning very favorable and 0 meaning unfavorable), the favorability score reported by members of Congress is 38; that by public is 46.

2. Most people are unfamiliar with PRC issues: only 46% of members of Congress are highly familiar with PRC issues; 18% of the general public are highly familiar with the same issues.

3. The American public seems to be divided on the issue of containing or engaging China:

The poll showed that 48% of the public agreed with the statement that "We should do all we can to limit China's global influence until China's government takes measurable steps toward democracy." Forty-five percent agreed with the statement that "We should do all we can to develop new and stronger relationship with China."

4. The support for unconditional MFN may be weak:

In April 1996, only 29% agreed that "We should maintain good trade relations with China, despite disagreements we might have about its human rights policies." 66% agreed that "We should demand that China improve its human rights policies if China wants to continue to enjoy its current trade status with the U.S."

These survey results suggest that all measures should be undertaken to:

- Help the American public and the Congress understand China
- Influence/persuade the Chinese government to adopt a more flexible and pragmatic policy on human rights and political reform.

**Source: <http://www.globalvillager.com/villager/china-us.html>*

EXHIBIT #15

A SAMPLE LETTER TO HOUSE OF REPRESENTATIVES

February 7, 1999
The Honorable Trent Lott
Majority Leader, United States Senate
U.S. Capitol
Washington, D.C. 20510

Dear Senator Lott:

The US-China Business Council would like to reiterate its strong support for normal trade relations (NTR) with China. When Congress takes up China's NTR status, we urge you to keep in mind the importance of the China market to both large and small companies, as well as the hundreds of thousands of Americans they employ. Renewal of China's NTR status is in America's national interest.

U.S. companies now export over \$12.8 billion in goods and services to China. China has vast infrastructure needs and US firms are well poised to meet them. There is strong demand for US products in such areas as automotive parts, chemicals, electronics, financial service products, grains, high-technology equipment, power generation, petroleum, and telecommunications, to name a few.

This is a critical time in US-China relations. The President's summit last year has advanced US interests on the range of issues affecting bilateral ties, including nonproliferation, human rights, the environment, and trade. We hope the Congress will play a positive role in building a constructive trade policy toward China. While we support full engagement, Congress should not take steps to damage our strategic relationship with China.

The US-China Business Council believes a clear, credible, and long-term China policy is in our national interest. We urge you to demonstrate your leadership in fostering stable and constructive US-China trade relationship.

Sincerely,

Lijuan Zhang

Advisor to the US-China Trade Promotion Council

BIBLIOGRAPHY

BOOKS:

1. Feketekuty, Geza. 1992. *The New Trade Agenda*. Group of thirty, Washington D.C.
2. Feketekuty, Geza. 1998. *Trade Strategies for a New Era: Ensuring U. S. Leadership in a global Economy*. Council of Foreign Relations, New York.
3. Lardy, Nicholas R. 1994, *China in the World Economy*, Institute of International Economics, Washington D.C
4. Cortright, David and Lopez, George A. 1995, *Economic Sanctions*, Westview Press, San Francisco
5. Blackman Carolyn 1997, *Negotiating China*, Allen & Unwin Pty Ltd. Australia
6. Mastel, Greg 1997, *The Rise of the Chinese Economy*, M.E. Sharp, New York

ARTICLES:

1. Feketekuty, Geza. *International Trade in Services*.
2. Lardy, Nicholas R. "China and the WTO." [Http://www.brook.edu/ES/POLICY/POLBRF10.HTM](http://www.brook.edu/ES/POLICY/POLBRF10.HTM)
3. The US-China Business Council. "China and the WTO: Critical Issues and Objectives." June 1998. [Http://www.uschina.org/press/wto.html](http://www.uschina.org/press/wto.html)
4. Mastel, Greg. "How to Deal with China." July 16, 1998. [Http://www.econstrat.org/jocchdl.htm](http://www.econstrat.org/jocchdl.htm)
5. Crutsinger, Martin. "Trade Deficit Surges." *The Augusta Chronicle*, February 20, 1997

6. Mastel, Greg, and Szamosszegi, Andrew. "China's Trade Imbalance." *The International Economy*, May/June 1997
7. Crutsinger, Martin. "Trade Deficit." August 21, 1997. [Http://gopher.essential.org/listproc/tw-list/msg00112.html](http://gopher.essential.org/listproc/tw-list/msg00112.html)
8. Crutsinger, Martin. "Asian Problem Sends Trade Deficit Soaring." *The Salt Lake Tribune*, March 20, 1998
9. Hufbauer, Gray C. "The Benefits of Open Markets and the Cost of Trade Protection and Economic Sanctions." December 1997. [Http://www.accf.org/Hufbauer1297.htm](http://www.accf.org/Hufbauer1297.htm)
10. Shi, Guangsheng. "Promotion of Mutual Benefits and Cooperation to Create a Bright Future." June 1998. [Http://www.moftec.gov.cn/moftec/official/html](http://www.moftec.gov.cn/moftec/official/html)
11. Griswold, Daniel T. "America's Maligned and Misunderstood Trade Deficit." *USA Today*, November 1998.
12. Berry, John M. "U.S. Trade Gap hits Record \$16,8 Billion." *The Washington Post*, October 12, 1998
13. Greenberger, Robert S. and Schelesinger, Jacob M. "U. S. Trade Gap Narrows on a Drop in Imports." *Wall Street Journal*, August 19, 1998
14. Crispin, Shawn W. "Crying Foul." *Far Eastern Economic Review*. November 12, 1998
15. Weidenbaum, Murray. "Trade Deficit: Obsessing over a Misleading Indicator." *Christian Science Monitor*, June 18, 1998
16. Ayers, Wayne M. "Trade Deficit—the Evil Twin?" American Bankers Association. *ABA Banking Journal*. May 1998
17. Bock, Alan W. "The Trade Deficit." *World Trade*, January 1998
18. Karapyr, Elia. "Trade Deficit and Well-being." *American Demographics*, May 1998.
19. Ma, Chengguang. "Series on Human Rights Broadcast." *China Daily*, December 9, 1998
20. Lu, Jingxian. "Nation to Contionue Progress in Rights." *China Daily*, December 12, 1998
21. Tian Jin. "Political Motives Underline Human Rights." *China Daily*, December 9, 1998