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The U.S.–China Economic Relationship: Time for a Change in Tone

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U.S. economic policies toward China remain a mixed bag of ideas. U.S. and Chinese officials recently met for the inaugural Comprehensive Economic Dialogue (CED) following a 100-day plan to jumpstart bilateral economic relations. Several notable outcomes, such as a commitment to allow beef exports to China, have been celebrated as successes. Despite both sides' continued demand for increased cross-border access, however, for now, further U.S.–China economic coordination may have hit a wall.

Outcomes Since the Presidents' Meeting

U.S. President Donald Trump and Chinese President Xi Jinping met in April in Palm Beach, Florida, and established a new but familiar round of U.S.–China economic dialogues to include a 100-day plan for reform, followed by the inaugural meeting of the CED. The U.S. and China have held similar formal joint dialogues like this since 2006. An initial report in May from the 100-day sprint signaled several areas of progress.[1]

A joint communique was released announcing:

- China will accept imports of U.S. beef, while the U.S. will allow imports of cooked poultry from China;
- China's National Biosafety Committee will begin the evaluation of eight U.S. biotech products into China;
- China is able to apply for liquefied natural gas exports from the U.S.;
- China will allow foreign-owned financial firms to provide credit-rating services;
- Both the U.S. and China will work towards a memorandum of understanding regarding information exchange and oversight of cross-border clearing organizations;
- China will begin allowing U.S. electronic payment systems to begin the licensing process;
- China will issue bond underwriting and settlement licenses for two U.S. financial institutions; and
- The U.S. will recognize China's Belt and Road Initiative.

Since the joint communique, both U.S. and Chinese officials have been quiet regarding any further mutual progress in negotiations. Neither the 100-day plan deadline nor the inaugural CED produced any joint public statement regarding ongoing efforts—unlike former dialogues such as the Strategic Economic Dialogue.

There are several reasons for the impasse. For the Chinese side, the approaching 19th Communist Party Congress this fall may limit how much free-

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dom negotiators like Vice Premier Wang Yang may have. Chinese leadership may wish to maintain a certain level of political stability and economic control before possible changes to the Party Politburo. From the U.S. side, a strictly transactional approach to market access can be difficult for negotiators, as the U.S. is already far more accessible an economy. Therefore, Secretary of Commerce Wilbur Ross and Secretary of the Treasury Steven Mnuchin are already limited in what they can take to the negotiating table. Alternatively, threats of restricting Chinese access to U.S. markets can be used as leverage but go against mutual cooperation toward greater economic coordination.

Going Forward

Continued rhetoric from the U.S., such as against Chinese imports, has not helped the U.S.–China relationship, but officials' complaints about Chinese business practices are not ill-founded. Favoritism toward Chinese firms and support of state-owned enterprises have kept U.S. companies from becoming as competitive as they could be in China. Subsidies for state-owned enterprises provide no incentive for U.S. companies to invest in subsidized sectors in China. Theft of intellectual property (IP) for the benefit of Chinese business and state purposes has remained relatively unresolved. And increasing Chinese nationalistic policies are burdening private firms through data localization and other national security requirements. But the Trump Administration has continued to focus on the bilateral trade deficit with China. Chinese negotiators have taken notice of the Administration's infatuation with the trade deficit and have offered to help by asking the U.S. to reduce restrictions on dual-use technologies.

Increased economic relations have mutually benefited the U.S. and China since China began opening its markets to the world in 1978. But in recent years, the pressures of the international market to spur market reforms have stalled. The U.S. and China have potential to continue their mutually beneficial relationship. While the Trump Administration may not like many of the practices that continue in China today, ensuring no harm comes to U.S. consumers in the process is the first priority. And Chinese leadership will need to come to terms with increased foreign competition or else risk not only further loss of growth but continued international displeasure. Japan was able to privatize many of its state-supported industries in the 1980s and maintain a growing economy—but only under leadership that could break through both public and private interests.[2]

Moving forward in U.S.–China economic relations, the Administration and Congress should:

- **Maintain national security interests.** Chinese officials have once again offered to correct the trade imbalance by suggesting American restrictions on the export of sensitive, dual-use technology be lifted. Reform of America's export-control regime is long overdue.[3] There may be things the U.S. can permit to be exported, such as technologies that are now more in common use. But this should be determined through a process that is not designed either to lessen the deficit or otherwise offer country-specific favors. It must result from a balance of commercial and national security interests. There will remain some technologies that are not exportable to China.

- **Play down future dialogues.** Chinese officials may not desire or be able to change domestic policies at this moment. Bilateral relations are based on mutual improvements toward increased competition without government intervention, and China has the furthest to move toward reaching a competitive market. U.S. officials should recognize how little is actually possible until such time as Chinese officials are in a position to return to market liberalization.

1. News release, "Initial Results of the 100-Day Action Plan of the U.S.–China Comprehensive Economic Dialogue," U.S. Department of Commerce, May 11, 2017, https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive (accessed August 3, 2017).
2. Katsuro Sakoh, "Privatizing State-Owned Enterprises: A Japanese Case Study," Heritage Foundation *Backgrounder* No. 51, September 4, 1986, http://www.heritage.org/government-regulation/report/privatizing-state-owned-enterprises-japanese-case-study.
3. Theodore Bromund and Daniel Kochis, "How to Expand Defense Trade Cooperation Between the U.S., the United Kingdom, Australia, and Canada," Heritage Foundation *Issue Brief* No. 4693, April 26, 2017, http://www.heritage.org/defense/report/how-expand-defense-trade-cooperation-between-the-us-the-united-kingdom-australia-and.

- **Take targeted action against IP theft.** Good relations between Chinese and American businesses should be maintained and not caught up in threats of sanctions because of bad actors. Unlike trade measures such as section 232 of the Trade Expansion Act,[4] which could potentially impact all imports of Chinese steel, for measures against stolen IP, the U.S. should limit actions against Chinese imports and investments by targeting specific Chinese companies with U.S. market access known to be using stolen IP. Measures could include a temporary ban of culprits' access to U.S. financial markets.

- **Protect America's free-market principles.** If the Administration truly believes the U.S. is a place for investment and growth, they should act to maintain the U.S. as a destination in which foreign companies want to invest. Increasing scrutiny of investments pushes foreign firms away, limiting future U.S. growth.

Conclusion

Growth and investment returns in the Chinese economy are not as great as they once were. While Chinese negotiators see technologies purchases and investments as keys to growth, growth will continue to stagnate for countries reluctant to pursue structural reforms that emphasize entrepreneurship. Government subsidies for indigenous production of technologies and manufacturing goes against President Xi's promise of letting the market play a decisive role. U.S. and Chinese representatives should continue to highlight the positives in the U.S.–China economic relationship to date—but the U.S. should not expect major changes from China anytime soon.

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4. Trade Expansion Act of 1962, Public Law 87–794.