

In U.S.-China Trade, Fairness Will Help Both Countries

by Barbara Hackman Franklin

Amid growing evidence that unfair trade practices by China are costing jobs in Connecticut and elsewhere, it's time to call China on the carpet. But while seeking redress for legitimate grievances, President Bush and Congress must find the right balance between measures designed to eliminate the bad practices and unnecessarily harsh actions that ultimately will hurt Americans as much as they hurt the Chinese.

As we do what is necessary to defend our interests, it is imperative to remember that a more open Chinese market holds out great benefits for the United States. In addition to the potential economic gains, history shows that expanded trade tends to promote the expansion of freedom as well as peaceful relations between nations. The old adage is apt: we must throw out the bath water, while holding the baby tight.

Let's consider some of the bad practices.

Like other fast-growing economies, China has sometimes been overzealous in protecting its own industries through tariff and non-tariff barriers. Until recently, for example, it imposed secret quotas on imports, and a tough inspection regime for imported goods made it harder and more costly for foreign products to enter the market.

Many of these bad practices have been abandoned since China joined the World Trade Organization in 2001. But intellectual property theft such as software, music and video piracy remains rampant. State-subsidized companies continue to compete unfairly with foreign goods.

Economists say that government policy keeps the value of the Chinese Yuan about 20 percent lower than it should be, which unfairly cuts the price of Chinese products by about 20 cents on every dollar. Clever packaging that suggests Chinese-made goods were made in the United States is another irritant that needs fixing.

Put together, these practices have produced a flood of low cost exports to the United States – about \$100 billion annually, compared to just \$20 billion in purchases of U.S. products by China.

This \$80 billion trade gap is a recipe for tension that also costs jobs in the United States in a range of sectors including Connecticut's high-tech and aerospace industries as well as textile and clothing businesses in the Carolinas and other southeastern states.

On the flip side, however, American exports to China *are* rising, increasing by more than 20 percent this year. A quarter of the top 40 exporters to China are American companies, and China is opening the door wider to U.S. investment and partnerships with domestic companies in China.

So, what's a U.S. policymaker to do?

- 1) Park the overheated rhetoric at the door. With a presidential election on the horizon and control of Congress up for grabs, candidates will be tempted to score cheap debating points with calls for trade retaliation and quotas. The real statesmen will be those who offer constructive solutions that keep trade flowing while also defending America's rights.
- 2) Insist that China live up to the market opening commitments it made in gaining admission to the World Trade Organization, including a roll back in subsidies and protection of intellectual property.
- 3) Protect American workers as provided by U.S. law and international agreements – as President Bush did in imposing quotas on a limited range of textile imports as provided by negotiated agreements.
- 4) Press for a new currency policy that enables the Yuan to find its fair value – a move that would partly offset the inherent advantages of China's low-wage economy.

- 5) Ensure fair and honest labeling that clearly states the country of origin and makes it easier to enforce U.S. labeling laws.
- 6) Seek the reduction and ultimate elimination of a Chinese government-funded export rebate program that provides unearned economic advantages to Chinese export businesses.
- 7) Remember the goal. A trade war hurts everybody. What's needed instead is a trading environment governed by rules that benefit both the United States and China and allows businesses in both countries to compete.

In a free and fair market place, Connecticut manufacturers and service providers as well as American businesses can compete successfully on merit. These businesses then will be able to provide and sustain quality jobs that provide their employees a good living. That's a solution worth fighting for.