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Testimony prepared for the Senate Finance Committee
Subcommittee on International Trade, Customs, and Global Competitiveness
for a hearing on
"Market Access Challenges in China"
April 11, 2018

Thank you, Chairman Cornyn, and Ranking Member Casey, for the invitation to participate in this important hearing. I am the president of the Economic Policy Institute, the nation's premier think tank for analyzing the effects of economic policy on America's working families. EPI has focused attention over many years on the impact of the imbalanced U.S. economic relationship with China on U.S. jobs and wages, as well as on American business and the long-term prospects for U.S. innovation and growth.

Seventeen years after China acceded to the World Trade Organization (WTO), the bilateral economic relationship between our two countries is enormously lopsided and problematic. The U.S. ran a goods trade deficit with China of $375 billion in 2017 – up from $83 billion in 2001. This is the largest single bilateral trade deficit between any two countries in the history of the world – and it continues to trend upwards, despite twenty U.S. challenges to China at the WTO, despite earnest annual bilateral talks and commitments, and despite all the "reform" commitments China made upon accession.

Furthermore, it is not just the sheer size of the U.S. trade imbalance with China that is of concern. It is the composition.

As recently as 2001, the U.S. ran a global trade surplus in advanced technology products (ATP). ATP includes advanced elements of computers and electronics, as well as biotechnology, life sciences, aerospace, and nuclear technology, among others. ATP should be a strong suit for a wealthy, technologically savvy, high-skilled, capital-intensive country like the United States. However, roughly coincident with China's entry into the WTO, the surplus turned to deficit and grew rapidly, hitting $136 billion in 2017. The U.S. ATP deficit with China is more than our entire *global* ATP trade deficit, which was $110 billion. This means that excluding China, we actually have a trade *surplus* in ATP with the rest of the world. This statistic alone should be a signal that there are significant anomalies in the U.S. trade relationship with China that cannot be explained by market forces.

Meanwhile, top U.S. exports to China include raw materials, agricultural products and waste materials. Between 2001 and 2015, we saw the fastest growth in imports over exports with China in computers, electronics, miscellaneous manufactured commodities, and apparel. We saw the fastest growth in exports over imports in agriculture and aerospace (where significant technology is being transferred over time). This is not the profile of imports and exports that would be expected between countries at the respective economic development levels of China and the U.S.

WTO Promises

In 2000, politicians from both the Democratic and Republican parties and business leaders argued that WTO accession would create a "win-win result for both countries" – the U.S. would gain access to Chinese markets, "reformers" in China would ascend in the political/economic hierarchy, workers' rights would improve, and both countries would prosper.

The actual outcomes have been decidedly different.

According to USTR, China is still not fully compliant with the commitments it made during the WTO accession process. American companies trying to do business in China face theft of trade secrets, counterfeiting, inadequate protection of intellectual property, online piracy, industrial policies that promote domestic goods at the expense of U.S. products, subsidies, discriminatory product standards, the dumping of excess capacity, and restricted access for American services. Seventeen years after accession, China has not even listed all of its restricted export subsidies, let alone eliminated them, as promised.

In addition, China has used currency policy to gain an unfair competitive advantage over American business and labor. During the crucial decade after China's accession, the Chinese government intervened systematically and in one direction in currency markets to thwart exchange rate adjustment that could have helped to rebalance trade with the U.S. The legacy of that currency intervention remains an important factor in the current imbalance. While in principle both the WTO and the IMF have mechanisms and rules to address currency manipulation, in practice no U.S. administration has yet been willing to use those mechanisms or U.S. unilateral measures to address this problem.

Impact on Jobs and Wages

This litany of unfair trade practices and currency manipulation has had a serious and pervasive negative impact on American jobs and wages. As my colleague, Rob Scott, demonstrated in a 2017 report, "Growth in U.S.-China trade deficit between 2001 and 2015 cost 3.4 million jobs," the deficit cost jobs in all 50 states and the District of Columbia. Between 2001 and 2011, the growing trade deficit cost directly

impacted workers $37 billion a year, while also putting downward pressure on the wages of all non-college graduates by $180 billion a year.

American businesses have also suffered from closed markets and unfair practices in China, but they are often reluctant to initiate trade complaints or protest, as they fear any public outcry will bring more unfavorable treatment on their company.

It is no secret that the Chinese government has a long-term economic strategy to build certain sectors through subsidies, as well as purchasing, tax, and regulatory policies. These strategies are announced publicly at regular intervals – pillar industries, strategic emerging industries, Made with China, Made in China 2025. These strategic plans are variations on the theme of "picking winners," also known as industrial policy, something American politicians of both parties tend to scorn. These plans set targets for indigenous production, use of technology, favorable treatment for state-owned enterprises, and discriminatory treatment of foreign brands and companies, among other things. These practices are deep and pervasive.

Of course, the Chinese government has a right to set its own strategic goals, and the U.S. can certainly be faulted for failing to articulate, let alone implement, any coherent, long-term economic strategy.

But there are two problems here, and we should be careful to distinguish them. On the one hand, many of the Chinese government's practices are inconsistent with international rules and norms – not just WTO rules on prohibited subsidies and dumping, but also international conventions on workers' rights, public health, human rights, environmental protections, intellectual property rights, and consumer safety. The U.S. touts the importance of a rules-based system, but if some players – like China – flout the rules with impunity over decades, then the rules-based system becomes a trap for those who comply. The U.S. failure to adequately enforce existing rules is why there is so much pent-up frustration among workers and domestic producers over trade with China. The U.S. government's piecemeal and scattershot enforcement strategy has been time-consuming and ineffective.

The U.S. government has not ever raised, in any systematic or meaningful way, China's failure to comply with its obligations as a member of the International Labor Organization to "respect, promote, and realize" the core international workers' rights outlined in the ILO Declaration on Fundamental Principles and Rights at Work: freedom of association, right to organize and bargain collectively, and freedom from child labor, forced labor, and discrimination. This means that American workers and businesses are competing on a tilted playing field, since Chinese workers cannot exercise their rights to form independent and democratic unions.

On the other hand, the U.S. has its own responsibility to develop and implement a coherent long-term economic strategy with respect to both manufacturing and services, both trade-related and domestic. The U.S. government has failed to invest

adequately in infrastructure and skills for decades, and business has not filled the void. We have a tax system that rewards capital over labor and outsourcing over domestic production. It remains riddled with unproductive loopholes, and – especially after last year's changes – it fails to raise adequate revenue to fund needed investments.

Our trade policy is geared toward boosting the profits and mobility of multinational corporations, but not creating and supporting good jobs at home. Our government spends a lot of time and energy negotiating new trade agreements, but has failed to act to stem currency manipulation, which undermines the market-opening measures negotiated with so much fanfare.

Forced technology transfer, IPR transgressions, and the loss of domestic capacity in key sectors can all contribute to the undermining of American innovation and technological leadership. This has consequences not just for the current labor market, but for our future trajectory.

The Chinese government is clearly playing a long game, while the U.S. is egregiously shortsighted. Our trade policies in the past have been so inadequate in scale and slow in implementation that by the time we take action, it is often a decade too late, with the result that our trade actions are ineffective, if not counterproductive.

We need to reform our domestic trade laws so we can act expeditiously – as soon as the Chinese government announces its strategic priorities, not a decade later, after we've lost market share and the technological edge. Going forward, we must address new barriers to trade in services and e-commerce. We need to make sure that we have – and are willing to use – measures to address currency misalignment. Our trade enforcement measures should prioritize good jobs, workers' rights, democracy, environmental compliance, and consumer safety over outsourcing and short-term profits.

In summary, the U.S. government needs to develop and articulate its own long-term economic development strategy. It needs to use domestic tax, infrastructure, and workforce development policies to ensure that American workers and businesses have the tools and skills they need to compete successfully. But the government also needs to strengthen our trade compliance and enforcement measures and be willing to use them aggressively and consistently and in a timely manner to ensure that our trade relationship with China is reciprocal and fair.

Thank you for your attention. I look forward to any questions you may have.