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Assessing the Wu Yi Visit by Kevin Nealer

While overall Sino-U.S. bilateral relations have never been better, it is arguable that, if current trends hold, the economic relationship could become the worst ever.

The annual ritual combat of renewal of China's "normal" trade status has been exchanged for the more authentic drama of the annual U.S.-China Joint Commission on Commerce and Trade (JCCT). The JCCT process has been around since 1983, serving as a forum where trade concerns and bilateral commercial relations are discussed. Since China's World Trade Organization (WTO) accession and the signing of bilateral market opening commitments, the JCCT has transformed from a talk shop to a work shop, achieving a new potency. It has become the issue-forcing event for managing the thorniest problems of WTO compliance, export frustrations, and import sensitivities.

The Players. This year's meeting on April 21 in Washington marked the most senior-level dialogue on trade since China came into WTO disciplines. China's delegation was headed by Madame Wu Yi, China's "Iron Lady" of trade policy. Now a vice premier, Madame Wu is best known to Americans as the leader of China's WTO membership effort during her tenure as trade minister. China's leadership has repeatedly turned to the pragmatic, hard-working intellectual to manage some of the most challenging issues on the political landscape. Since the departure of Premier Zhu Rongji, Wu Yi has taken charge of the external sector economic portfolio in the Chinese Cabinet. When the SARS crisis threatened public confidence in the new leadership and China's economy, Madame Wu assumed responsibility as health minister. Large-scale resurgence of SARS never materialized, and she used the credibility gained through crisis management to reshape the new government's approach to HIV/AIDS. Wu Yi's team includes the formidable Madame Ma Xiuhong, perhaps China's most impressive economic diplomat and an internationally respected expert on trade law and policy.

Her counterpart is Commerce Secretary Donald Evans. Secretary Evans' China team is led by Congressional and State Department veteran Grant Aldonis, a high-energy professional and master of trade law details. Aldonis' "China hand," Hank Levine, was the State Department's consul general in Shanghai – the key envoy to China's business and economic opinion leaders.

The Issues. As with Chinese WTO commitments, the JCCT meeting found itself freighted with unrealistic expectations for change. The backdrop was daunting:

- The breathtaking bilateral trade deficit of $124 billion is growing.
- The booming U.S. economy that once tolerated trade deficits has failed to create enough new jobs. The recent jobs report offers hope of a nascent recovery, but the debate over the loss of manufacturing jobs is a symbol of a larger economic discontent that is being translated into political vocabulary and foreign policy problems. Reversing the experience of past recessions, two out of three American jobs lost are now due to structural, rather than cyclical, problems.
- The Chinese have made specific WTO commitments that are not being implemented on the timetable that was agreed. This fact allows the trade and economics issues to be framed as a question of "honoring agreements," bringing into question China's trustworthiness across the range of the relationship.

These factors are making "China-bashing" a temptation in an already over-heated American campaign season, in a way that may be reminiscent of the "Japan bashing" of the mid-1980s. All that remains to be seen is how bad the campaign rhetoric gets and how much lasting damage is done.

These macroeconomic realities have set the table for several high-profile trade cases in the U.S.

- The AFL-CIO filed a Section 301 trade petition with the U.S. Trade Representative (USTR), attacking China on the basis of unfair labor practices. USTR must decide whether to accept the petition by April 30.
- Prior to the JCCT, the United States was preparing its first case against China at the WTO, regarding China's discriminatory application of its value-added tax (VAT) to imported semiconductors and other products.
- Last year's trade case targeting Chinese textiles failed to achieve a negotiated result that avoids U.S.-imposed limits on PRC products, and import restrictions are expected to begin sometime in April or May. A flood of additional cases is likely when the textile quota system ends next year.
- A case against Chinese furniture imports alleging as much as 400 percent dumping margins is scheduled for final consideration in the late fall or early winter.
- A slew of legislative bills have been introduced in Congress, threatening trade action against China's currency regime, and a Section 301 case on that issue may be filed by U.S. companies.

More specifically, the JCCT agenda was focused on China's industrial policies relating to encryption for wireless computers and telecommunications standards, where billions of dollars in U.S. business hung in the balance. Perhaps most importantly, China's inadequate intellectual property regime (lack of criminal penalties, pervasive IPR infringement) had become a point of neuralgia that united many sectors of American business in a demand for fundamental improvements. In addition, WTO compliance on issues ranging from agriculture to services rounded out a large “must do” list of U.S. demands.

Scorecard and Road Ahead. Premier Wu Yi and Secretary Evans were able to celebrate agreement on an action plan for intellectual property protection, as well as substantial progress on several of the industrial policy challenges. For its part, the U.S. agreed to consider more lenient treatment of trade cases alleging dumping. Progress on the semiconductor VAT issue proved illusive when the Chinese refused to back down. Left for another day was the most contentious issue in the trade equation: China’s currency regime. The administration’s muted tone in the recent Treasury Department currency report, and the appointment of Ambassador Paul Speltz as “currency czar” – as economic and financial emissary to Beijing – are meant to move the *renminbi* (RMB) valuation issue into a holding pattern. The hope is that currency concerns can be relegated to economic diplomacy while China moves to gradually rebalance the RMB, perhaps relying on a basket of currencies which more closely resembles the mix of its massive $400 billion foreign exchange holdings.

The financial press and many U.S. industries directly involved received the news of the JCCT accomplishments with approval. For the Chinese, whose trade with the rest of the world (and its near neighbors) is in rough balance, the JCCT deals are another chapter in the playbook of “managing” the U.S. relationship. As China faces increased risk of inflation and fundamental challenges in its internal sectors, it remains to be seen how much political capital the new leadership will spend to guarantee stability in Sino-U.S. relations. Those decisions are likely to be informed, in part, by how bilateral relations emerge from the U.S. elections this November.

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[Editor’s note: After this article was written, on April 28, the Bush administration announced that it was rejecting the Super 301 petition by the AFL-CIO to impose tariffs on Chinese imports. Administration officials also signaled that they would reject a planned Section 301 case that an alliance of manufacturers and unions are preparing to challenge China’s pegged currency.]