

Chinese and United States Trade Policy: September 2009

James Drogan

Norwich University

Abstract

On September 11, 2009, President Obama announced the imposition of a 35 percent tariff on automobile and light-truck tires imported from China. Two days later China responded by taking the first steps toward imposing tariffs on United States exports of automotive products and chicken meat. The United States and China are projected to be the two largest global economies by 2020. In 2005, U.S.-China trade was \$202.3 billion according to Chinese data. In 2003, China became the United States's third largest trading partner, while the United States was the China's second largest trading partner. We examine whether this action-reaction couplet is isolated and of little significance or a harbinger of the nature of ongoing trade relationships. Drawing upon contemporary and historical sources, these events are examined using regime theory. We conclude that 1.) trade conflicts will likely continue as the two states move towards co-equal hegemony, and 2.) regime theory is useful, but not sufficient for the examination of these types of situations.

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On September 11, 2009 the New York Times reported that United States President Obama had levied a 35 percent tariff on certain tires imported from China (Andrews, 2009). This decision may have been made within the calculus of United States politics and, in any event, represented a victory for organized labor in the United States, whose support is needed by the Administration in its efforts to repurpose and restructure United States health care. The decision offended the Chinese and they responded two days later by imposing tariffs on certain automotive products and chicken meat (Bradsher, 2009). Nor was the decision supported by all affected parties in the United States. For example, the Tire Industry Association, representative of all segments of the tire industry opposed the tariffs claiming that the action would not result in saving any jobs.

Obama was acting on a recommendation by the United States International Trade Commission (a regime) that Chinese tire imports were detrimental to the United States market. This recommendation resulted from numerous hearings by the Commission. A search of the Commission's web site using the phrase "Chinese and tires" yields 336 documents pertinent to this matter. The earliest dated document is July 21, 2009 and the latest is November 11, 2009 ("Search results - document level," n.d.). A second regime called into play was the agreement by the United States in 2001 to support China's entry into the World Trade Organization.

This activity briefly described above coincided with the discussion and debates regard health care in the United States.

There is an interplay in this situation between globalizing and localizing forces as described by James N. Rosenau (2004) with the Chinese boundary-broadening (exporting

tires), the United States responding by boundary-heightening (imposing tariffs), and the Chinese responding again with boundary-heightening (imposing tariffs).

In the shadows is the effect of local politics on international politics. Chad P. Brown and Rachel McCulloch in *U.S. Trade Policy Toward China: Discrimination and its Implications* (2005) found that, in addition to the role that politics plays in trade policy (pp. 22-23), the United States protects, in addition to domestic trading partners, established foreign trading partners and foreign subsidiaries of US companies (p. 21). While most United States actions are consistent with the rules of the World Trade Organization there is, nevertheless, specific discrimination against the Chinese (p. 1).

China undertakes similar discriminatory actions with respect to the United States. Restricting foreign access to markets, favoring large companies that lead domestic industries, and lobbying by business (Paulson, 2008, p. 71) reminds us of the ever present themes of self-help and sovereignty.

Subsequent Developments

In the wake of the September actions the United States and China announced agreement in October on a broad range of trade issues (Aredy, 2009). Resolution of the September dispute was not announced as being part of the agreement. Then, in another dispute announced in early November, China accused the United States of protectionism in its decision to investigate the imposition of duties on imports of steel pipe (Back & Ho, 2009). This decision was also supported by organized labor in the United States. All of this was taking place just prior to Obama's schedule 10-day trip to China, Japan, South Korea, and Singapore that began November 12, adding to the tension that surrounded the visit.

In a space of three months the world's biggest debtor, the United States, and its biggest creditor, China, who are also two of the major trading partners in the world, have engaged in an international relations *pas de deux* that does not seem well choreographed. A more synchronized, stable bilateral relationship is called for as China continues on track to join the United States as the two largest economic powers in the world and as it continues to extend its international relations across the globe. An application of a theory that helps explain current developments and leads towards a more mutually beneficial and less rancorous relationship is in order.

A Brief Reprise of Chinese-United States Trade

Prior to the United States Revolution the United States Colonies were forced to purchase Chinese goods through England as that country, and others, fiercely protected mercantilism (The Board of Trustees of the University of Illinois, 2006). Direct trade with China started shortly after the conclusion of the War of Independence and well-established trade routes existed between the United States and China by the 1830s. At the time, nankeen, a strong, coarse cotton cloth produced in China was much in demand in the United States. The demand for nankeen began to fall as cotton textile manufacturing developed in the United States and cotton cloth and yarn represented a significant part of exports to China by the latter part of the 19th century. Reflected here was David Ricardo's notion of comparative advantage. The pendulum of comparative advantage would shift again as by the end of 2008 apparel was not amongst the top 10 exports to China, but was amongst the top 10 imports from China. Comparative advantage is expected to be variable as states change their capabilities in response to the market. What is emerging, however, is management of trade motivated by political considerations (Brown & McCulloch, 2005).

In 2008 the combined trade between the United States and China was \$409B (billion). United States exports were \$71B and imports were \$338B, representing a current account deficit of \$337B (“US-China trade statistics and China's world trade statistics,” n.d.). This trade imbalance and the currency exchange rate between the yuan and dollar are sources for various *contretemps* in the relationship between the two states. The global recession and the interplay between globalization and localization creates additional forces leading to trade disputes. Trade discrimination is likely to continue (Brown & McCulloch, 2005, p. 15). Organized labor in the United States has increased its advocacy of restrictive trade policy (p. 21), but may not have considered the impact of these trade policies over the long term, particularly as these lead to accelerating the move by states to more sophisticated and higher-priced variations of products and services in a trading category (p.28). There is evidence that this is taking place in the context of this case.

In the past decade, the most dramatic increases in U.S. imports from China have been not in labor-intensive sectors but in some advanced technology sectors, such as office and data processing machines, telecommunications and sound equipment, and electrical machinery and appliances. China’s exports to the United States are taking market share from other Pacific Rim countries, particularly the East Asian newly industrialized countries (NICs), which have moved most of their low-end production facilities to China (Lum & Nanto, 2007).

Additional Considerations

Robert O. Keohane (2004, p. 495) cites Stephen D. Krasner as defining international regimes as “sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area...” This is the

definition of regimes used in this paper and is herein applied to state and local regimes as well. Regimes intend to foster cooperation between parties. The case under consideration in this paper exhibits both cooperation and discord within a three-month period (Keohane, 2004, pp. 490-494). The case also illustrates Keohane's point of "...a crucial tension between economics and politics: international coordination of policy seems highly beneficial in an interdependent world economy, but cooperation in world politics is particularly difficult" (p. 489). This then leads to the causes that give rise to the issue of incongruity between economics and politics, and the means whereby these causes may be ameliorated and congruity restored.

This suggests the notion of a cooperation space defined by the economic and political realities, and the ambitions of the actors. Consider developments in China.

The Chinese Communist Party was founded in Shanghai in 1921 in a country comprising individual fiefdoms, no strong political leadership, and in need of economic development (Chow, 2002, p. 24). The period of from 1921 until 1949 represented a struggle for political control between the Chinese Communist Party and its adversary, the Kuomintang. The Kuomintang lost this struggle and decamped to Formosa (Taiwan). In the cooperation space, taking politics as the independent variable, China was strongly moving in the direction of centralizing political control of the country. Little economic advancement occurred. The United States, on the other hand, spurred by World War II, became stronger economically.

The death of Mao Zedong in 1976 brought a more pragmatic set of leadership, headed by Deng Xiaoping, to China. Economic reform in China generally dates from this time (Chow, 2002, p. 28). In 1975 total foreign trade for China was \$147.5M (million). Five

years later this figure was \$381.4M, representing compound annual growth rate of approximately 21 percent (Chow, 2002, Table 17-1). The Chinese Communist Party, having consolidated its political power, made an upward turn on the dependent axis of the cooperation space, economics. In 1979 the People's Republic of China established formal diplomatic relationships with the United States. By 1985 the foreign trade between China and the United States had grown to \$7.7B and continued to grow at a compound annual rate of 15.8 percent to a value of \$259.8B in 2009 ("U.S. trade balance with China," 2009).

The United States has never had a tradition of one party rule and its political system makes this highly unlikely at the state level. Hence, while there have been efforts to consolidate one party rule, at least for an extended period of time, these have not been successful. Political power, in the sense of one party rule, in the United States has never been as important as economic power.

China and the United States have been and are at different points in the cooperation space. However, given the growth in trade between the two countries, the trend towards equalization of capabilities (Waltz, 2004), and the significant debtor-creditor relationship, it becomes clear that the two states are moving towards increasing interdependence and convergence in the cooperation space. As the states converge the fundamentals of realism – power and sovereignty – begin to serve as repulsive forces. This echoes a theme mentioned earlier in this paper.

The Lens of Regime Theory

This paper has briefly outlined a complex set of international relations between the reigning hegemon, the United States, and the preeminent rising hegemon, China. In this section we take up the question of whether regime theory enables a clearer understanding of

the events of September through November 2009 and whether that understanding leads to insight into the paths of convergence of the two states in cooperation space and the issues associated therewith. Keohane's *Cooperation and International Regimes* is the guide.

A hegemon is "A state with the preponderance of material resources, military capability, and political power. Hegemonic powers must also have control over sources of capital, control over markets, and competitive advantage in the production of highly valued goods" (Kaufman, Parker, Howell, & Doty, 2004, p. 848). Keohane (p. 489) looks at a post-hegemonic world and thereby suggests a world without hegemons. Perhaps Keohane was looking forward from 1984, the original publication date of *After Hegemony: Cooperation and Discord in the World Political Economy*, the source for *Cooperation and International Regimes*, and speculating on the continuing decline of United States hegemony. The relative decline of United States power is agreed, but there has been a relative rise in power in other states. Brazil, Russia, India, and China come to mind. That is, multiple hegemons emerge.

The preponderance of power is no longer, now and in the foreseeable future, to be attributable to a single state. Power will be spread unevenly amongst several states and associated with specific capabilities. For example, the United States may well be accorded hegemonic status in military power and represent, but not control, a large market. China may be accorded economic hegemony given the size of its foreign reserves and the amount of United States debt it holds. Russia may be accorded hegemony vis-à-vis Europe in energy. The matter of cooperation "after hegemony" will not, in all likelihood, be true. Hegemony will exist in a much more complex fashion than has heretofore been imagined.

This is not to say that we should declare regime theory no longer applicable. All theories are built upon some reality and need to be examined in their totality for those bits and pieces that apply to the situation at hand. Indeed, Keohane's mention of the tension between economics and politics (p. 489) applies to the case under consideration in this paper.

This paper considers both China and the United States to be hegemons. Of interest, then, is how a theory centered on nonhegemonic cooperation can enlighten our understanding of cooperation between multiple hegemons.

China and the United States moved back and forth between the poles of cooperation and discard over three months. We contend that this was driven, for the most part, by local socio-economic-political forces within the states. Some of these were mentioned in the opening of this paper. China, for all of its centralization of political power, is also acutely aware of the sentiments of the rising middle class. Thus, the notion of cooperation spaces exists at all political levels. These cooperation spaces are increasingly linked. This has been true in the United States since the 1960s, but is only just now becoming true in China. We see no prospect that this behavior will lessen in the near future.

Keohane remarks that "...discord often leads to induce others to change their policies..." (p. 491). One hypothesis that could explain this case is that discord within the United States led to policy changes resulting in resistance and reaction by the Chinese. Indeed, Keohane makes just such a point (p. 493). This suggests that for regime theory to be helpful in navigating the waves of change in an emerging world it is not enough to consider the relations between states. The relations inside the state are important, especially a democratic state, where the voter, however ill-informed, can vote out of office those that displease them. In Rosenau's *The Complexities and Contradictions of Globalization* this

means that the local boundary has become sufficiently high that the ability of the state to broaden the boundary is constrained, perhaps even foreclosed (p. 813). The converse may also be true. For example, China holds so much of the United States' debt, a very broad boundary from China's point of view, that the heightening of a local boundary, the tariff on tires, may be a difficult undertaking.

Keohane brings to our attention matters of "the context of beliefs and behavior" that affect instances of cooperation and discord (p. 494). Surely this applies in the case under examination here. This raises the notion of how the importance of context changes as the distribution of capabilities and nature of relationships between states change. For example, there is little effective action that countries in Africa can take against the United States unilaterally raising tariffs on cotton. These countries have no hegemonic powers. This is not true for country like China. We hold that there is little useful in international relations theory that does not consider context.

Keohane views regimes as "largely based on self-interest" (p. 495). This paper tends to agree with that assertion, but we should also note the rise of community-interest regimes such as the *World Health Organization*, *International Maritime Organization*, *World Trade Organization*, and the growing concern with global warming. What states do unilaterally or multilaterally often have impacts on other than the primary political actors. This is not the place to review the evidence for and against global warming, but, if true and if the impact is as significant as some feel, then regimes will need to be based on community-interest. Self-interest may arguably suffice for now, but surely this will not suffice in the future. This is important because we should strive to have theories that guide our actions in addition to explaining what has happened.

Krasner's principles, norms, rules and decision-making procedures (Keohane, 2004, p. 495) as components of regimes are important in applying this lens. No doubt within the context of these four items as implemented in separate regimes in China and the United States, the logic for the decisions is rational. One wonders, however, the extent to which the decision-making procedures were influenced by outside forces (Keohane's context) not considered when the regimes were established. This suggests, in accord with Keohane's view that regimes are "largely based on self interest," that regimes may be drawn up in a manner sufficiently loose to allow for rationalization of a wide range of decisions. Regimes associated with developments that are particularly complex, rapidly changing, shot through with risk and uncertainty, have a very strong undercurrent of self-interest, or perhaps exhibit all the foregoing are likely to be drawn up in a loose manner between actors possessing roughly equal power.

Keohane argues (pp. 498-499) that international regimes must be distinguished from interstate agreements. Brown and McCulloch, however, point out numerous examples of where there is interplay between an international regime, the World Trade Organization, and various bilateral agreements between states. It would also contradict Keohane's emphasis on context. It is contended here that regimes exist at a number of levels in the political world and that these regimes are interconnected. This argument supports the inclusion of systems dynamics into the study and development of international relations theory (Chadwick, 2003).

Ab

We ignore the basics of realism — self-help and sovereignty — at our peril (Keohane, 2004, p. 499). We see realism reflected in the tariff case. On the other hand, as suggested above, issues relating to community-interests are significant and will become

increasingly so. Examples of emerging community-interest issues center on the use of the world's resources.

Conclusions

This paper posited two major questions.

First, is this action-reaction couplet isolated and of little significance or a harbinger of the nature of ongoing trade relationships? The conclusion drawn here is that given the movement back and forth between cooperation and discord over a relatively short period, the debtor-creditor relationship between the United States and China, the global recession, currency exchange rates, human rights, and the intrastate political exigencies, especially in the United States, there is little reason to believe that a stable set of relations will develop. On the other hand, it is not in the self-interest of either state to let these relations proceed in an uncoordinated, spontaneous manner. One should expect that significant attention will be paid to these matters. It would not be surprising to see the establishment of new regimes. The United States has a new administration and China will get new party leadership in 2012 and 2013, just at the time of the United States quadrennial national elections. Based upon history, one might expect a more dramatic change in the political context in the United States than China. Henry M. Paulson Jr., in *A Strategic Economic Engagement: Strengthening U.S.-Chinese Ties*, discusses the Strategic Economic Dialogue between China and the United States during the administration of President George W. Bush, providing evidence of the dynamism in the political system of the United States. Nevertheless, states of the power of China and the United States have a momentum that compels national leaders to govern as they are able or must rather than as they would like.

Self-help and sovereignty are powerful concepts deeply embedded in the psyche of each of these actors. These concepts become strong repulsive forces as the two states converge in the cooperation space. It is inevitable that reach and range of China and the United States will continue to overlap as they do today with respect to Iran and North Korea. These interactions will need to be closely managed to be sure that cooperation and competition do not move to conflict.

Second, is regime theory suitable for explicating events such as these? Regime theory explains some aspects of the event and encourages questions that explore the event from outside the context of the theory. Relying solely on this or any other single theory would not allow the analysis of this situation at a breadth and depth its complexity requires. Theories are, as Cox reminds us, always for someone and some purpose (p. 752). That purpose may align well with the situation under consideration, especially if we looking into history. In all likelihood, it will not align well with situations increasingly occurring close to real time. Such is the case here.

We should bring to bear those theories that promise material contribution to our analysis. As practitioners we need to be invested to one degree or another in all potentially valuable theories. There is always the temptation to be the expert and experts are generally associated with depth in a particular subject. There is also the notion of the expert who is a generalist (e.g., Leonardo de Vinci). Whether one is a realist or a Marxist or a constructivist or any of the other labels attached to international relations theory, expertise categorized in this manner may be increasingly less important in an increasingly complex, chaotic, fast-paced world. Rather, the generalist with a broad view and healthy curiosity who knows what he knows, knows what he does not know, and knows who knows what he does not

know, emerges to be the principal player in the field of international relations. We also argue that is valuable for the principal to have an unconventional point of view.

For example, states are not the sole actors in international politics (Strange, 1996, p. 68). Peter Willets estimates 95,000 political actors in the global system (p. 332). This number excludes what Willets refers to as non-legitimate groups and liberation movements, actors of considerable influence in the modern world. These actors have the potential of creating an extremely large number of relationships (approximately 9 billion), most of which are not realistic. These actors and relationships are the means for establishing regimes. It is unlikely that all regimes pertinent to the conduct of international affairs can be identified. Without being identified they cannot be understood for what they are, what they do, and what impact they have in the world. They are beyond the reach of theory and have the potential for generating large unknowns in our equations of international relations. This suggests the need for a theory of the unknowns, an attempt to understand how much we do not know about international relations and an estimate of the risk associated with this uncertainty.

One set of political actors that has emerged are the transnational corporations (Strange, 1996). While the transnational corporation has been with us for some time (e.g., the Dutch East India Company was established in 1602), the distribution of capabilities between all the political actors, the governance of the relationship between the actors that determines the ebb and flow of these capabilities, the understanding of power and security look different depending upon the characteristics of the actor, the culture that underpins their thinking, and their current and desired capabilities, needs, and desires. Susan Strange represents the unconventional thinking required to take on the issues of the emerging world.

Albert Einstein reminds us that, "You cannot solve a problem with the same type of thinking that is creating it." We agree, but the old thinking should not be discarded. We progress in our capability to understand and rationally respond to the growing global complexity and speed of change by drawing on those who have gone before, both the traditionalists and their iconoclastic contemporaries, and adding to this richness new ideas, born of new thinking and a willingness to press forward into the unknown. We are less inclined to value reexamination of the past and believe that focusing our energies on understanding and learning from contemporary issues with the hope of producing better outcomes in the future is the best use of our resources. We do not hold that international relations theory is usefully separated from other relevant sciences. We have sought herein, by consideration of a set of contemporary events and applying to it recognized theory, to illustrate a need and a way forward.

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