U.S.–China Economic Relations
Issues and Prospects
Conference Report

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CNA China 中 Studies

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U.S.–China Economic Relations
Issues and Prospects

Fudan University,
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Foreword

In May 2007, while I was in Shanghai, Professor Pan Rui of Fudan University's Center for American Studies suggested to me that Fudan and CNA should partner to co-host a conference on U.S.-China economic relations. It did not take much convincing on Professor Pan's part to elicit my enthusiastic response. For one thing, CNA's growing China program was in the process of expanding its coverage of Chinese affairs. Here was an opportunity to inform the public discourse on an issue of critical importance to the bilateral relationship. Also, my own interest in the political dimensions of bilateral economic relations had been growing ever since I had been invited to participate in Treasury Secretary Henry Paulson, Jr.'s academic outreach sessions for the U.S.-China Strategic Economic Dialogue (SED). Here was an opportunity to learn. Finally, of course, the chance to partner with a Chinese university of Fudan's stature was not to be missed.

After many months of planning and coordination, on June 6–7, 2008, our conference took place in Shanghai, at the Center for American Studies at Fudan University. For two fascinating days Chinese and American specialists met to discuss, debate, and delineate the current and future contours of what some consider to be the world's most important bilateral economic relationship. The high quality of the discussions that ensued was a direct result of the world-class caliber of the participants—Chinese and American—who presented papers or served as discussants. They represented a unique mix of former government officials, research specialists from key institutes, scholars from the academy, and individuals from the business sector. Moreover, on the evening of June 6, Mr. Kenneth H. Jarrett, U.S. Consul General, Shanghai, honored the conferees by delivering an insightful dinner address informed by his many years of involvement in U.S.-China relations, as well as by the unique vantage point that Shanghai provides for observing the economic relationship.

This conference report transmits the major themes that ran through the two days of the conference. It reflects the best assessment of the author and CNA of what transpired.

Our conference would not have been possible without the hard work, diligence, and *bon homie* of many people on two sides of the Pacific Ocean. In China, in addition to the conferees, we especially thank Professor Pan for suggesting our partnership, for his diligence, and for his patience. At Fudan we also thank Ren Yiming for weeks of pre-conference coordination and Han Junjie and Zhou Yunheng for support during the event. At CNA I am grateful for dedicated and capable colleagues who were able to execute the vision. They include Peter Cugley, Tamara Hemphill, and Alison Kaufman, all of whom worked very hard to make the event a success.

Most of all, we at CNA thank the members of the U.S. delegation who prepared for and participated in the event. Without their substantive expertise, as well as that of their Chinese counterparts, this conference would not have been the success that it was.

Dr. David M. Finkelstein
Vice President & Director,
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Executive summary

Overview

On June 6–7, 2008, CNA China Studies and Fudan University's Center for American Studies partnered to sponsor a major conference on U.S.-China economic relations. For two days in Shanghai, Chinese and American specialists met to discuss, debate, and delineate the current and future contours of what some consider to be the world's most important bilateral economic relationship. On the evening of June 6, Mr. Kenneth H. Jarrett, U.S. Consul General, Shanghai, honored the conferees by delivering a dinner address. This executive summary transmits the six key themes that threaded through two excellent days of highly informed and very collegial discourse. The body of the conference report elaborates upon the six themes in detail.

Six key themes

Theme #1: The U.S.-China economic relationship is increasingly complex, increasingly buffeted by outside forces, and increasingly contentious. Conferees agreed that the U.S.-China economic relationship is unquestionably one of the cornerstones of the overall bilateral relationship. Yet, it presents more challenges now than at any time in the last 30 years. By all measures, they noted, the two economies are becoming ever more intertwined. As the size and interdependence of both economies grow, their relationship becomes increasingly subject to forces outside the immediate control of economic policy-makers. These include regional and global economic trends; bilateral political frictions; and non-economic issues, such as environmental degradation. The bilateral economic relationship is thus vulnerable to a wide variety of interests and concerns, and has become increasingly contentious in recent years.

Theme #2: The U.S.-China economic relationship rests partly on the Chinese and American citizenries' perceptions of the relationship. The bilateral economic relationship is increasingly subject to public opinion in both the United States and China. Some citizens in both countries believe that the interconnectedness of the two economies poses unacceptable risks to national and individual interests. While these public concerns do not reflect a government consensus in either Washington or Beijing, they can limit policy-makers' abilities to build a constructive bilateral economic relationship. Conferees noted that leaders in both countries need to practice "public diplomacy" to educate their own citizens on the value of the relationship and to address concerns and misconceptions.

At the front: Shen Dingli, Fudan University; Zhou Dunren, Fudan University; Evan Medeiros, RAND Corporation

Theme #3: The United States and China each contend that the other side does not fully understand its priorities and concerns. Participants worried that each country's leaders have tended to ascribe the worst intentions to the other. Some also cautioned that each government has made some policy demands that the other country considers unreasonable. Conferees pointed out that each government has a stake in ensuring that its economic intentions and priorities are well understood by the other, but also noted that some of these priorities may be inherently incompatible.

Theme #4: Trade imbalance and renminbi revaluation—and, to a lesser degree, China's foreign exchange reserves—remain hot button issues. The U.S. trade deficit with China and the question of whether, and how quickly, China should revalue its currency garnered substantial discussion. Conference participants differed on both the size of the U.S.-China trade imbalance, and on the impact that the imbalance has on each country and on the regional and global economies. They disagreed on the extent to which the RMB should continue to appreciate and how rapidly it should do so, on whether the exchange rate significantly affects bilateral trade, and on how closely tied the RMB and USD really are. Conferees also disagreed on whether China's large foreign currency holdings pose a problem for either China or the United States.

Theme #5: The Strategic Economic Dialogue (SED) provides a much-needed forum for managing the U.S.-China economic relationship, but it has not yet lived up to its full potential. Participants agreed that the SED has filled a critical void in the U.S.-China economic relationship. They were particularly impressed by the ability of the SED to bring to the table high-level counterparts from both governments and from across a range of bureaucratic institutions. Many felt, however, that the SED does not yet live up its potential. Participants traced its shortcomings to three sources: differences in the goals that the United States and China have for the SED; a perception that the two countries have differing degrees of commitment to the SED; and a sense that many policy-makers take insufficient account of the impact of differences between the two countries' domestic economic and political systems. Participants agreed that the SED should continue, but some expressed concern that there might not be sufficient political will to ensure its survival after the new U.S. administration takes office.

Theme #6: Both sides voiced support for increased economic openness and for greater clarity of economic goals. Participants agreed that even in the face of continued disagreements on some economic issues, the United States and China have shared interests in upholding a stable regional and international environment for economic growth and dispute resolution. A number of proposals were floated toward that goal, though no consensus was reached.

Shoppers along Shanghai's Nanjing Road

Theme #1: The U.S.-China economic relationship is increasingly complex, increasingly buffeted by outside forces, and increasingly contentious

There was broad agreement among conference participants that as the American and Chinese economies become more interdependent, the relationship presents both more opportunities and more challenges than at any point in the recent past. Discussions centered on the following points.

The U.S. and Chinese economies are inextricably intertwined.

Nearly all of the paper presenters made the point that the U.S. and Chinese economies are closely linked, and will be even more so in the future. By most accounts, China and the United States are the two largest contributors both to one another's prosperity and to global economic growth. They are tied together by trade, by exchange rates, and by investment. They also share concerns on issues outside the traditional sphere of economics, such as environmental degradation.

> **"The U.S. and China's economic prosperity are tied together more tightly now than ever."**
> *—Sang Yucheng, International Relations and Public Affairs, Fudan University*

Participants viewed the two economies as complementary in many ways: whereas the United States excels in technological development and in services, China has a comparative advantage in abundant and cheap labor; whereas the United States exports high-end and high-tech products, China until recently has concentrated on apparel, toys, and other light industrial products.

Table 1: Interdependence of the U.S. and PRC economies

China:	The United States:
• Is the United States' second largest trading partner • Is the United States' largest source of imports • Is the United States' third largest export market • Is the second largest holder of U.S. debt	• Is China's largest single trading partner[1] • Is China's fourth largest source of imports • Is China's largest export market

Source: U.S. Census Bureau, Foreign Trade Division.[2]

Changes inside the Chinese economy are creating new challenges for the bilateral relationship.

Participants noted that as China continues its transition from a "developing" to a "developed" nation, its economy is experiencing a number of shifts that are likely to affect the bilateral economic relationship. These include:

- Increased costs of Chinese labor
- Shift of China's export structure toward more diverse and higher-end products
- Rise in Chinese value-added share of exported goods
- Increased foreign direct investment (FDI) in Chinese domestic enterprises rather than in exports
- Growth of Chinese domestic demand for consumer products
- Growth of Chinese domestic demand for natural resources and raw materials.

> **"China-U.S. trade used to be a positive, a building block for the overall U.S.-China relationship. Now, it is becoming a stumbling block."**
> *— Zhen Bingxi, China Institute of International Studies*

The change in China's export structure may remove one of U.S. consumers' greatest incentives for buying Chinese goods—the fact that they are relatively inexpensive. At the same time, shifts in China's exports and domestic demand mean that China and the United States are increasingly likely to come into direct competition for access to world markets and natural resources. Both of these factors could create new tensions in the bilateral economic relationship.

The U.S.-China bilateral economic relationship is affected by a number of non-economic factors.

A number of conference participants pointed out that the bilateral economic relationship is increasingly influenced by concerns that sit outside the purview of traditional bilateral economic issues. Topics mentioned by the conferees included:

- The two countries' consumption of energy and other resources
- Degradation of the global environment
- Climate change
- Concerns over food and product safety
- Concerns about national security.

These issues are largely beyond the direct control of economic decision-makers, yet they affect the policy options available to these decision-makers. Conversely, economic policies have the potential to shape the outcomes of non-economic issues. For instance, as one American presenter pointed out, on one hand climate change can alter international energy pricing; on the other hand, appreciation of the Chinese renminbi could readjust "distorted price policies" that sustain Chinese energy inefficiencies and thus greater consumption of global energy resources.

Finally, economic decisions in both countries are increasingly likely to be based partly on security concerns. This has already happened to a degree, as the United States has imposed a number of restrictions on exports of high-tech, dual-use technologies to China. While several Chinese conference participants complained about these restrictions, an American commentator pointed out that "Americans—and Chinese, too—will always choose security interests over economic interests." Conferees from both countries called for a closer coordination of economic and security policies.

The U.S.-China bilateral economic relationship cannot be viewed in isolation: it both shapes and is shaped by regional and global economic trends.

Several conference participants argued that the U.S.-China economic relationship should not be assessed independently of its larger global and regional contexts. They pointed out, first, that the two countries together dominate global economic growth; and, second, that China dominates the Asian regional economy. Thus the bilateral economic relationship affects not just the United States and China, but the entire

Table 2: Global economic positions of China and the United States

China:	The United States:
• Was the fourth largest economy in the world in 2007[3] • Accounted for 6% of global GDP in 2007 • Was the third largest trading power in the world in 2007 • Is expected to become the world's largest exporter in 2008	• Was the largest economy in the world in 2007 • Accounted for 25.5% of global GDP in 2007 • Was the largest trading power in the world in 2007

Sources: U.S. Census Bureau, Foreign Trade Division; International Monetary Fund; World Bank.[4]

world. Conversely, shifts in the structure of the regional and global economies affect the U.S.-China economic relationship. Confrees addressed the following points in their discussions.

Measures of the U.S.-China trade imbalance look different when considered in a global and regional context.

Amidst discussion of the U.S.-China trade imbalance (covered in detail below), some conferees argued that the true significance of the bilateral trade imbalance can only be assessed with reference to its global and regional impacts. Conferees noted the following facts:

- **Much of China's trade surplus originates elsewhere in Asia.** One speaker noted the rapid growth in Asia of "China-centered production networks": a flow of raw materials and partially completed goods that are assembled in and exported from China. These networks make up a substantial portion of intra-Asian trade, but most American bilateral trade numbers do not take them into account.
- **China has taken on most of the trade surpluses that used to come from other nations in Asia.** As the bulk of manufacturing and investment in the Asian region has shifted to China, the bilateral trade surplus has shifted accordingly. One speaker provided figures from a recent report by the U.S.-China Business Council: in 2007, China comprised two-thirds of the Asian total trade surplus with the United States, or 32 percent of the U.S. global trade deficit—up from 24 percent a decade earlier. At the same time, the rest of the Asian region's share of U.S. global deficits has decreased significantly, from 51 percent to 17 percent over the last decade.[5]
- **Even so, the Asian region's overall surplus with the United States has declined, relatively speaking.** Drawing from the same report, another speaker pointed out that while the U.S. deficit with China has increased, its deficit with Asia as a whole (including China) has gone down significantly—from 75 percent of the total U.S. trade deficit a decade ago, to just 49 percent in 2007. In other words, despite China's growth, the United States is importing products more quickly from the rest of the world than it is from East Asia.

Ellen Frost, Peterson Institute of International Economics

- **China's surpluses with the globe as a whole are growing.** However, China's global trade dominance still concerned some speakers. One speaker noted that China's share of global surpluses is growing rapidly: from 8 percent of the global surplus in 2003, to 43 percent in 2007.[6] This was seen as an indication that China has the ability to unsettle world markets if its domestic economy is not carefully managed.

The Chinese economy is vulnerable to shifts in the Asian regional economy.

Conferees noted that even though China dominates the Asian economy, it is still subject to economic shifts throughout the region.

- **Asian national economies are tightly linked.** In addition to the trade flows discussed above, flows of intra-Asian foreign direct investment also centered on China: in 2007 Asian nations invested $67 billion in China, far more than they invested in any other country in the region. These economic linkages bind the region together, with China as its center of gravity.
- **China's economic growth is vulnerable to weaker economies in the region.** The economies of many Asian nations are plagued by corruption, weak governance, and erratic regulation—which puts their own national prosperity, and China's, at risk. Conferees pointed to Vietnam's recent currency troubles as one example of a regional crisis that has the potential to affect China. Although China's economy withstood the 1997 Asian financial crisis relatively well, it remains vulnerable to regional economic disruptions.
- **China's comparative advantage is affected by labor movements and economic shifts throughout the region.** As China's labor grows more expensive and its factories move toward higher-end production, the production of lower-end goods is shifting to the cheaper labor markets of Southeast Asia. If China loses its position as the world's supplier of inexpensive goods, its trade patterns with the United States, and with the world as a whole, will change.

The bilateral economic relationship is subject to global economic shifts which are partly beyond the control of the United States or China.

Trends in the global economy affect the policy options of both nations, which in turn shape the bilateral economic relationship. Implications of these trends include the following:

- **Increases in worldwide prices of food, oil, and raw materials may put new strains on the bilateral relationship.** The decline in global oil reserves and other natural resources will alter prices and supply networks and could bring the U.S. and China into more direct competition for these resources.
- **The business cycles of the developed world and emerging markets may be "out of whack."** What *Newsweek's* Fareed Zakaria calls the "rise of the rest" means that

Barry Naughton, University of California, San Diego there is no longer a single global business cycle. Thus, for instance, the current economic difficulties in the United States will take a while to spill over into the emerging market economies, but the anticipation that they will do so may in itself affect those economies—and thus shape global and regional trends.

- **The demands of economic globalization may conflict with national economic interest or political feasibility.** The logic of globalization and of global economic institutions points toward open markets for both the United States and China. However, opening domestic markets has obvious consequences for domestic industries and labor markets. The political unpopularity of these outcomes can lead to protectionism in both countries, which in turn can lead to more difficulties in maintaining a cooperative bilateral economic relationship.

Nations around the world have a stake in the U.S.-China bilateral economic relationship.

Changes in the economic conditions and policies of the United States or China are magnified by their prominence in the global economy. U.S. and Chinese decisions on such issues as trade barriers and exchange rates can have an enormous impact on other nations' economies, especially those that are highly globalized. As a result, nations around the world have a stake in the bilateral relationship. One speaker asserted that this places on the United States and China a special obligation both to act responsibly on non-economic issues and to cooperate, as much as possible, in the economic sphere.

Xu Mingqi, Shanghai Academy of Social Sciences

The lines between the economic and the political are blurring.

Much discussion centered on the fact that, in the words of one conferee, "as the economic relationship has expanded, this has further blurred the line between economic relations and political/security affairs in U.S.-China ties." Issues that would traditionally be considered the purview of economic policy-makers, such as trade barriers or monetary policy, are increasingly subject to the pressures of the non-economic issues outlined earlier. At the same time, the ability to conduct constructive political discussions is hampered by growing economic frictions over trade imbalance, exchange rates, and other issues outlined later in this report. As a result, it is not always clear where economic issues end and political concerns begin.

Conferees discussed two implications of these increasingly hazy boundaries:

- **A poor economic relationship can weaken the political relationship, and vice versa.** As the U.S. and Chinese economies have become inextricably intertwined, economic relations no longer serve as a salve for political frictions. Indeed, tensions in the economic relationship are likely to deepen political frictions, and decrease the political will to cooperate on either economic or non-economic issues. For example, high levels of protectionism on both sides, or U.S. policy-makers' continued concern that China is exporting too much, could weaken the will of the two governments to cooperate on political or security issues, such as anti-terrorism. Conversely, competition for natural resources and concerns over product safety may make the U.S. government and consumers less keen to import Chinese products.

> **"Among all the risks the Sino-U.S. economic relations will bear, political risks are at least as important as macroeconomic risks."**
> ***—Lin Lu, Dept. of Risk, Information, and Banking, American Express Co.***

- **Political circumstances shape economic decision-making.** Even in areas where there is broad agreement, economic policy is subject to political factors. For example, as one conferee noted, such things as the timing of energy price adjustments are based as much on domestic political considerations as on immediate economic need.

The conference participants did not agree on whether the "politicization" of economics is a new phenomenon, or on whether it is an avoidable one. Some Chinese participants, echoing former PRC Vice Premier Wu Yi, eschewed "political interference" in the economic relationship, saying that it drives protectionism. Others, however, voiced the opinion that "instead of complaining about the politicization of economic and business issues, we should take the politicization as a reality and incorporate [it] into our strategic planning and daily decision making." All concurred that, for better or worse, a strong economic relationship both depends upon and bolsters a strong political relationship between the two countries.

Chinese participants were particularly interested in what the upcoming U.S. presidential election will mean for the bilateral economic relationship. Some American participants asserted that the U.S.-China relationship is unlikely to play into most voters' decisions. Others, however, noted that aspects of the bilateral economic relationship specifically perceived as threatening U.S. economic prosperity—such as job loss, the trade deficit, and a weakening dollar—garner substantial popular attention as election campaign issues.

U.S.-China economic relations are increasingly contentious.

Underlying many of the conference discussions was a concern that the economic relationship has become increasingly tense and increasingly difficult for economic policy-makers to manage. As the lines have become blurred between economic and non-economic issues, between national,

Shipping containers at a Shanghai port

regional and global economies, and between politics and economics, there is potential for considerable friction and misunderstanding between the United States and China. While most conferees agreed that the general tenor of the economic relationship is still positive, several warned that, as one speaker put it, "it is not automatically true that the [positive] logic of the past 30 years of economic relations will continue." Participants concurred that both nations will need to make great efforts to ensure that the economic relationship continues on a positive trajectory.

"The future of economic relations between the United States and China is full of promise but also full of challenge and even peril."
—Bob Kapp, Robert A. Kapp & Associates, Inc.

Theme #2: The U.S.-China economic relationship rests partly on the Chinese and American citizenries' perceptions of the relationship

A good deal of discussion centered on the importance of *perception* on both sides: that is, what domestic constituents and policy-makers *think* is true about the economic relationship is as important as what actually *is* true. Conferees noted that bilateral economic policies are constrained by citizens' demands on their governments and by the internal political dynamics that result from these demands. Hence it is crucial to ensure, as one speaker said, "popular acceptance of the [bilateral economic] relationship."

As the U.S. and Chinese economies have become increasingly intertwined, ordinary people are far more aware of the impact of the bilateral economic relationship on their own lives. Without citizens' support, it can be difficult for policy-makers to uphold cooperative bilateral policies.

Factors that can influence public opinion on the bilateral economic relationship include the following:

Counting currency at a Chinese bank

- **Numbers.** One speaker pointed out that whether or not such numbers as trade deficit figures are "economically significant in their own right, … politically they affect the ability to build internal political consensus on the relationship." Numbers get people's attention and are easily used to serve any side of a policy disagreement.

"Month after month the U.S. Commerce Department publishes U.S. trade deficit data, including how much each major trading partner is 'responsible' for the total deficit. Voters and special interests are most familiar with these bilateral statistics, however misleading they may be."

— Albert Keidel, Carnegie Endowment for International Peace

- **The emotional power of certain issues.** Food and product safety is an example of an issue that has emotional power: Although only a very small percentage of Chinese products actually pose a health risk, the issue looms large in American consumers' imaginations. It greatly affects both their purchasing decisions and their support for cooperative U.S.-China economic relations.
- **Individual losses within society.** Even if the overall economic trends are positive, individuals within each society may still lose out as a result of bilateral economic policies. As one

conferee said, "If I lose my job, my personal unemployment rate is 100 percent," even if national unemployment levels remain low. In both the United States and China, individual economic losses—which are often ascribed in the United States to the trade deficit—can affect the public's and the government's perception of the relationship.[7] Protectionism has already become a prominent topic in the 2008 U.S. presidential campaign.

Chinese participants suggested that these domestic pressures are particularly strong in the United States, where Congress is directly accountable to constituents' concerns and where economic policy-making requires bargaining within Congress and between Congress and the executive branch. However, American speakers noted that China's government must also respond to citizens' needs and must build an intra-governmental consensus on economic policies. Two speakers, one Chinese and one American, pointed out that as Chinese civil society expands, citizens' demands on the Chinese government—and thus on the government's economic policy—will also grow.

The two publics' general mood about economic relations seems to have darkened, but this does not reflect a government consensus.

Conferees from both countries expressed concern that support for deepening the bilateral economic relationship is waning within large parts of both populations.

On one hand, members of the Chinese delegation worried that the American public increasingly sees U.S.-China economic relations as deleterious to U.S. interests. However, American conferees

Jin Canrong, People's University of China

noted that even if those perceptions exist, they do not originate in or reflect a consensus within the United States government. Several American speakers went on to point out that in the multifaceted American political process, the negative voices are often the loudest but are not necessarily the most influential. Within the U.S. government, there are other powerful figures who advocate deepening U.S.-China economic ties.

Conversely, Americans noted with concern the popularity in China of a recent book, *Currency Wars (huobi zhanzheng;* 货币战争), which argues that the United States is trying to undermine China's economy and domestic stability by forcing it to open its financial markets. Chinese participants generally dismissed the book's thesis, but one noted that it does capture Chinese anxieties about opening the Chinese economy too far, too fast.

"China has to please both Main Street and Wall Street."

— Zhou Dunren, Center for American Studies, Fudan University

Public diplomacy is needed in both countries to smooth the policy-making process.

Speakers on both sides pointed out that many of the public pressures on economic policy-making stem from misunderstandings that could be cleared up with better information. All participants argued for a better program of domestic public diplomacy in both countries, aimed both at refuting misinformation and at making clear the benefits of a strong U.S.-China economic relationship.

Aerial view of New York City

Theme #3: The United States and China each contend that the other side does not fully understand its priorities and concerns

Through many of the conference panels and discussions, there ran an undercurrent of concern that the government and citizens of each country do not understand or respect the other's viewpoint.[8] The American and Chinese conferees tended to stand on opposite sides during these discussions.

Conferees asserted that the United States and China each ascribes overly negative intentions to the other.

Participants were concerned that some in each country are too quick to read negative intentions into the other's words and deeds. One American cited what he called "highly visceral" Chinese reactions to the U.S.'s well-meaning encouragement of RMB appreciation—of which the Chinese book *Currency Wars* was one example. Conversely, a Chinese discussant commented that Chinese efforts to correct misperceptions in the United States haven't worked. He suggested that the U.S. government finds China's one-party government to be an easy "scapegoat" on which to dump domestic economic worries.

Several presenters cautioned that each country's internal concerns and historical grievances can cloud its ability to interpret current-day interactions. China's sensitivity to being "victimized" by the West may push its leaders and citizenry to read negative intentions into American economic proposals; conversely, U.S. fears about its declining global dominance may exacerbate Americans' suspicions about entering into bilateral or multilateral trade agreements. Participants from both sides warned that each country needs to show greater awareness of issues that might touch a nerve in the other.

U.S. and Chinese participants disagreed on what demands each country might reasonably make on the other.

U.S. speakers asserted that some of China's economic proposals are outside the pale of what is politically realistic.

A few American conferees complained that some Chinese proposals to reshape the bilateral economic relationship are so unrealistic that they could ultimately harm the relationship. By proposing policies that are simply not on the table for the American side, one speaker said, China risks its credibility as a negotiating partner. The chief example given was a proposal (floated by several Chinese participants at the conference, and by the Chinese government at several SED meetings) to increase the sales of U.S. dual-use technology to China as a way of drawing down

Zhen Bingxi, China Institute of International Studies the trade imbalance. Believing that Chinese officials know this to be an unviable proposition, some U.S. policy-makers see it as China's excuse for retaining its own high trade barriers, rather than as a legitimate proposal. American participants cautioned that such proposals can make Americans cynical about China's intentions.

Several Chinese conferees suggested that the United States makes too many economic demands on China.

Discussions revealed that many Chinese participants felt that the current economic relationship, and the mechanisms (such as the Strategic Economic Dialogue and the World Trade Organization) that have been put in place to manage it, primarily represent America's needs rather than China's needs. One Chinese participant proposed that the U.S. approach to the bilateral economic relationship is "offensive" and the Chinese approach is "defensive"—that is, the United States puts forth conditions which China is expected to meet, but which are aimed at promoting only U.S. interests.

Both sides agreed that for the economic relationship to flourish, each nation needs to clearly understand the other's economic priorities and goals.

Conferees on both sides asked for a clearer understanding of the other country's economic goals. The subsequent discussions suggested that while many of the two nations' goals for the bilateral economic relationship are compatible, others are less so. Participants did not resolve the question of how to deal with inherently incompatible goals.

Table 3: U.S. and Chinese goals for the bilateral economic relationship, as discussed in conference

U.S. Goals for the Relationship	China's Goals for the Relationship
• Ensure China's continued progress toward a market economy • Foster more balanced growth in China, in order to balance U.S.-China trade • Improve market access for U.S. goods and services • Improve the ability to resolve trade irritants so that frictions do not "spill over" into the political relationship	• Be viewed as an equal partner, rather than a source of problems, in the bilateral economic relationship • Avoid excessive weakening of the U.S. dollar • Avoid a U.S. slide into protectionism and a "politicized" investment climate • Improve bilateral management of trade and economic issues in order to avoid damaging the overall relationship

Theme #4: Trade imbalance and renminbi revaluation—and to a lesser degree, China's foreign exchange reserves—remain hot button issues

Of the many contentious issues in the bilateral economic relationship, those that got the most attention at this conference were the bilateral trade imbalance and the revaluation of the renminbi (RMB). Also of concern, but discussed in less detail, were China's large foreign currency holdings.

Participants disagreed on the amount of the trade imbalance and on its significance.

How big is the trade deficit?

Conference participants discussed at some length the question of how great the U.S.-China trade deficit actually is. Official U.S. statistics show that China's share of the U.S. total deficit has risen from 24 to 32 percent over the past decade.[9] Both countries acknowledge that the trade imbalance is substantial, but dispute its exact size. In 2007, for instance, the U.S. Department of the Treasury calculated the U.S. trade deficit with China at $256 billion; the PRC General Administration of Customs put the number at $163.3 billion.[10]

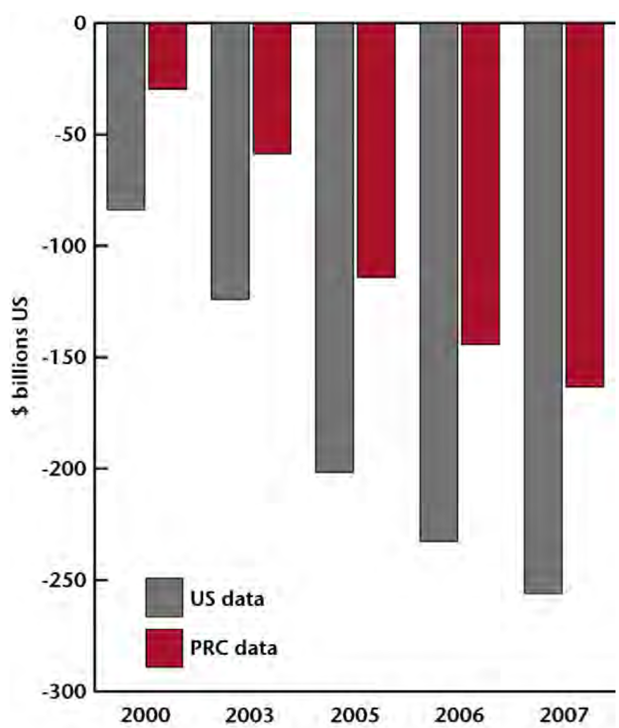
Sheldon Ray, Morgan Stanley

Several speakers highlighted this difference between the U.S. and Chinese official trade figures. The gap was captured most starkly in a chart presented by Dr. Zhen Bingxi of the China Institute of International Studies.

Why the difference in numbers?

Conferees offered several reasons for the large gap between the two countries' calculations of the trade deficit. Most argued that the U.S. figures are too high and that they discount China's role

Figure 1: U.S. vs. PRC trade deficit figures, in billions of USD



Source: Zhen Bingxi, China Institute of International Studies, citing figures from the U.S. Census Bureau, Foreign Trade Division, and the PRC General Administration of Customs[11] as a "middleman" for regional and global trade. Reasons given for the difference included the following:

- **U.S. numbers include export processing, while Chinese numbers do not.** The "Made in China" label does not capture the fact that the materials may have originated elsewhere in the region, or that much of the product may have been made elsewhere in Asia and only assembled in China.

> **"It is reliably estimated that half to two-thirds of Chinese exports consist of imported materials and parts."**
> *— Ellen Frost, Peterson Institute for International Economics*

- **U.S. numbers do not include U.S.-based companies manufacturing in China.** This income flows back to the United States but is not recorded as trade.
- **U.S. numbers do not take into account the large flows of imports and exports between parent companies in the United States and their overseas subsidiaries.**
- **U.S. numbers do not include sales in China by PRC-based U.S. affiliates.** According to one Chinese participant, China's Ministry of Commerce reports that in 2005 U.S. affiliates sold $60 billion of products and services within China, and sold another $46 billion of exports within the East Asian region. According to the Chinese numbers, this amounts to 53 percent of the U.S.-China trade deficit in that year.
- **Chinese numbers do not include trade through Hong Kong.**

What is the impact of the trade deficit?

Even if we accept the lower, Chinese numbers, it is clear that the United States has a substantial trade deficit with China. However, conference participants disagreed on the implications of this imbalance.

- **Many of the conference participants argued that an "imbalanced" economy does not necessarily harm the global economy.** One conferee noted that although the two economies are far less balanced relative to one another than they were a decade ago, the overall world economic situation is better. Another participant pointed out that trade imbalance may play a necessary role in the global economy, saying, "Someone has to take on the role of global deficit seller—why not the United States?"
- **Others argued that some degree of bilateral trade imbalance is inevitable.** One American speaker noted that "As long as U.S. investment exceeds U.S. savings (or U.S. consumption exceeds production), U.S. imports will have to come from somewhere!"
- **Both American and Chinese speakers noted that a trade imbalance does not necessarily harm the United States' economy or help China's economy in the long run**. Several participants noted that within the U.S. economy there is little evidence that the trade deficit in itself has caused long-term problems. As one Chinese conferee said, U.S. consumers benefit from the availability of inexpensive, "good enough goods" from China. Conversely, it is not clear that running large trade surpluses benefits China's economy.

- **There was some disagreement over whether trade is the main driver of China's economic growth.** A few Chinese and American speakers argued that much of China's investment capacity comes from local government investments, rural consumption growth, and increased domestic demand, rather than solely from global demand for Chinese products.

What drives the trade imbalance?

Conferees discussed a number of possible sources of the trade imbalance, with no clear consensus on the main drivers. They noted the following as possible factors:

- **An undervalued renminbi.** An undervalued RMB can make Chinese goods artificially cheap, while keeping the U.S. dollar weak.
- **Domestic demand.** Several participants pointed out that U.S. government and consumer spending is very high, while Chinese domestic demand remains low.
- **Home market effects.** One participant discussed the impact of the "home market effect," which dictates that as a nation's domestic market expands and it production diversifies, its ability to export those products will increase. If the home market effect holds, then China's exports will grow even as its competitive advantage in cheap labor declines.

Participants disagreed on whether renminbi revaluation is needed, and how quickly.

Should the value of the RMB rise?

Participants disagreed on whether faster RMB revaluation would help or harm China. Several Chinese participants noted that the RMB has already risen substantially in the last year, and expressed concern that the U.S. government is "pressuring" China into a revaluation that it does not want or need. Arguments made on each side of the debate are summarized in Table 4.[12]

How much interdependence is there between the USD and RMB?

Participants had different opinions on how closely tied together the two currencies are. Some conferees pointed out that since 2005 the RMB has officially been tied to a "basket of currencies," including the euro, that represents China's major trading partners. Several other speakers noted, however, that for all intents and purposes the RMB remains closely tied to the value of the U.S. dollar, both because the USD is the major currency in the "basket of currencies," and because more than 70 percent of Chinese trade is still denominated in USD.

Table 4: Arguments for and against rapidly revaluing the renminbi

Why Continue Rapid RMB Revaluation?	Why Slow RMB Revaluation?
• RMB revaluation could help cool global inflation and lower Chinese import prices. • With its floating currency, the U.S. has no fiscal instruments to deal with the global slowdown, so other currencies should adjust to compensate. • The costs for China of maintaining foreign currency reserves outweigh the benefits of maintaining a low RMB exchange rate.	• Chinese companies are not yet sufficiently financially competitive to manage exchange rate risks. • Rapid RMB appreciation could lead to more market speculation, increasing "hot money" flows and driving up inflation. • RMB revaluation will raise Chinese labor costs.

How much does the value of the RMB really affect the bilateral trade relationship?

There was substantial disagreement on whether the U.S.-China trade imbalance would be affected by a revaluation of the renminbi. Many conferees seemed to take for granted that revaluation would help balance China's economy and decrease its trade surplus, but some participants from both countries argued that Chinese surpluses are unrelated to an undervalued renminbi. One provided statistics suggesting that even a 25 percent revaluation of the RMB would decrease the U.S.-China trade deficit by only $20 billion over two years—i.e., a tiny percentage of overall trade.

There was some discussion of China's holding such large foreign exchange reserves, but little consensus on whether it is a problem.

Participants agreed that China's foreign exchange reserves are certainly high: of the $6 trillion held in reserves worldwide, over $1.5 trillion, or one-quarter of the total, is in China and another $3 trillion is in the rest of Asia. However, there was no consensus on whether this is really a problem for the United States or a benefit for China. Some participants worried that it represents a dangerous amount of liquidity in the Chinese economy. On the other hand, one American speaker noted that as a percentage of the Chinese total money supply it is not excessively far above the generally accepted international standard, and is well below the percentage expected to trigger a domestic financial crisis. There was little discussion on the implications of China's large holdings of U.S. Treasury bonds.

Bob Kapp, Robert A. Kapp & Associates, Inc.

Theme #5: The Strategic Economic Dialogue (SED) provides a much-needed forum for managing the U.S.-China economic relationship, but it has not yet lived up to its full potential

All participants agreed that the SED has filled a critical void in managing U.S.-China bilateral economic relations. They especially praised its ability to bring high-level members of both governments, across a wide range of bureaucratic offices, to a single table. Several worried, however, that the SED as currently constituted will not be able to handle the many economic challenges that continue to arise between the two countries.

The SED has, for the most part, helped the bilateral economic relationship.

The SED was created to fill in gaps left by earlier bilateral mechanisms.

One of the conference panels focused on the origins of the SED. Speakers noted that the SED was created out of a belief that existing bilateral mechanisms—particularly the Joint Economic Commission (JEC) and, to a lesser degree, the Joint Commission on Commerce and Trade (JCCT)—either did not engage the right partners, or were too focused on immediate trade frictions rather than larger strategic concerns. A comparison of these three mechanisms is presented in Table 5.

> **"The U.S.-China relationship has already outgrown a number of the key mechanisms that we used to rely on."**
> *— Eric Altbach, National Bureau of Asian Research*

Table 5: Bilateral economic policy mechanisms, as assessed by conference participants

	JEC	JCCT	SED
Created	1979	1983; elevated to a higher jurisdictional level in 2004	2006
Membership	• U.S. Secretary of the Treasury • PRC Minister of Finance	1983: • U.S. Secretary of Commerce • PRC Minister of Commerce 2004: • U.S. Secretary of Commerce, U.S. Trade Representative • PRC Vice Premier	• U.S. Secretary of the Treasury • PRC Vice Premier
Purview	Macroeconomic policy issues, especially jurisdictional issues	Managing major trade concerns; WTO technical assistance	High-level engagement
Pros and Cons	Produced firm Chinese statements on commitments. Less successful on opening market access for financial services.	"Didn't yield outcomes on priority issues."	Requires high levels of commitment to sustained, long-term discussions. Unclear how to balance long-term goals with short-term benchmarks.

Eric Altbach, National Bureau of Asian Research

A Chinese presenter praised the SED as symbolizing a progression "from bilateral business dialogue to strategic economic dialogue." All agreed that such a forum is crucial for moving beyond specific trade issues to the larger economic concerns that affect both countries.

The SED and similar mechanisms play a vital role in public diplomacy.

Speakers pointed out that the SED provides not just a venue for the United States and China to discuss strategic-level economic issues, but also a showcase for bilateral dialogue. If the SED is able to help resolve bilateral frictions, it can prove to stakeholders in both countries that dialogue can work as well as punitive measures in managing economic affairs. Some Chinese conferees implied that this function may be more important in the United States than in China.

The SED has been largely successful in bringing high-level players and important issues to the table.

Participants agreed that the SED, unlike many earlier mechanisms, has been established at the appropriate government level for strategic economic discussions. One U.S. conferee suggested that another positive legacy of the SED has been to create a much-needed model for bringing together high-level U.S. and Chinese officials across bureaucratic lines in each respective system. Speakers also appreciated the SED's focus on long-term, strategic issues, though some felt that too many short-term goals are folded into the discussions. Overall, participants supported the continuation of the SED.

Table 6: U.S. and Chinese goals for the SED, as discussed in conference

U.S. Goals for the SED	China's Goals for the SED
• Hold long-term, high-level discussions, but with concrete benchmarks to show that the process is working • Act as a consensus-building organization to "demonstrate to the U.S. public and Congress that the U.S. and China can effectively manage economic relations through cooperative approaches" rather than through punitive legislation • Help move China toward a full market economy • Promote inter-agency cooperation on both sides	• Create a "macro-economic coordinating mechanism" that makes "long-term, overall, decisive policies," focusing on long-term issues rather than detailed benchmarks • Allow China to take a less "defensive" role—i.e., to bring issues and criticisms to the table rather than simply to respond to U.S. complaints • Improve bilateral management of trade and economic issues to avoid damaging the overall relationship • Improve market access for Chinese businesses in the U.S. • Meet U.S. pressure to hold these meetings • Persuade the U.S. to relax restrictions on high-tech imports to China

Chinese Vice Premier Wang Qishan, left, with U.S. Treasury Secretary Henry Paulson at the June 2008 Strategic Economic Dialogue (SED)

The two countries' different goals for and attitudes toward the SED make its future uncertain.

While all participants seemed to agree that the SED has served a useful function, discussions indicated that there is still some disagreement over what the end goals of the SED should be, and whether it is likely to fully meet these goals. Participants' understandings of both countries' goals for the SED are summarized in Table 6, on the previous page.

The participants' goals for the SED were divergent and, at times, incompatible.

Many of the conferees stated what they believe should be goals for the SED. Several of these seemed incompatible, particularly on the question of whether the SED should set specific, short-term goals or should focus only on discussing longer-term issues.

One conferee suggested that the short- and long-term goals of the two countries are not actually very far apart. Disagreements arise, he said, because the United States tends to emphasize its short-term goals and benchmarks, China its long-term interests. Others, however, implied that the SED truly does serve more useful functions for the United States than it does for China.

Some participants felt that the two countries do not put equal weight on the SED.

Several Chinese participants expressed concern that the United States places too much weight on the economic relationship while downplaying the importance of other areas. They voiced annoyance that whereas the United States labels its economic discussions with China a "strategic dialogue," the discussions between U.S. Deputy Secretary of State John Negroponte and PRC State Councilor Dai Bingguo on bilateral security and political issues only garner the title of a "senior dialogue." In the view of these conferees, the label "senior dialogue" is symbolically inferior to that of "strategic dialogue." As one Chinese conferee commented, the impression is that "Bush is happy to have China as an economic strategic partner, but not as a political strategic partner."

"The SED should be something that both looks good and tastes good (又好看的，又好吃的). But for a lot of Chinese, it only looks good."

— Pan Rui, Center for American Studies, Fudan University

Conversely, some Americans expressed concern that the Chinese government does not put enough weight on the economic relationship. One American speaker noted that for a long time the Chinese side seemed hesitant to involve the highest levels of government in these discussions. Thus, the U.S. Cabinet-level offices involved in earlier discussions, such as the JEC and the JCCT, did not have appropriate counterparts from the Chinese side. Both U.S. and Chinese participants seemed more confident that the SED has brought the right people to the table.

Participants suggested that to ensure successful dialogue, the United States and China need to understand each other's economic systems better than they currently do.

Some participants asserted that the two countries do not sufficiently take into account the different systems under which economic policy is formulated in each country. One Chinese speaker, for instance, noted that Chinese economic policymakers face less direct domestic pressure, from fewer constituencies, than do their U.S. counterparts. As a result, American economic policy can seem frustratingly fragmented to the Chinese, with fiscal, monetary, and trade policy sometimes working at apparent cross-purposes.

Several others noted that because the two government structures are different, people in the role of formal government "counterparts" may not actually be functional equivalents. For instance, an American speaker noted that Chinese ministers sit under the State Council, and hence have less authority than members of the U.S. Cabinet. Therefore, the functional equivalent of a U.S. Cabinet member is a State Council Vice Premier, not a Minister. As a result, the "real" decision-makers were not included in this process until the SED was established.

The SED should continue, but its future in the current format is not guaranteed.

Conferees agreed that, overall, the SED has been a useful mechanism for allowing both sides to air their concerns and to carry out discussions on high-level, long-term issues.

However, several participants raised concerns that the SED is not equipped to handle some of the issues that are likely to arise in the bilateral economic relationship. One pointed out that there is still no mechanism for dealing with a true economic crisis. Another expressed concern about continued short-term economic frictions, asking, "Why, if the SED is working, are so many bilateral trade disputes still brought before the WTO?"

Moreover, the SED faces two upcoming challenges:

- **First,** there is no guarantee that the next U.S. President will continue the dialogue.
- **Second,** some Chinese participants complained of the "dialogue fatigue" that ensues from the twice-yearly SED meetings, and suggested that the number of meetings should be reduced. They implied that members of the Chinese government are doubtful that such frequent meetings, which require enormous inputs of time and resources, result in any real outcomes for China.

Participants from both sides suggested that aspirations for the SED may have been too high at the beginning, and that the United States and China need to scale back their expectations of what can be accomplished in this forum.

Theme #6: Both sides voiced support for increased economic openness and for greater clarity of economic goals

Differences notwithstanding, conference participants agreed that both countries have a strong interest in maintaining a positive, open economic relationship. All agreed that some degree of contention is inherent in the bilateral economic relationship. They suggested that maintaining good economic relations requires a commitment to open discussion on difficult issues. Conferees agreed on the following points:

Both countries have an interest in maintaining existing or creating new mechanisms that will ensure a stable ongoing bilateral relationship.

Such bilateral and multilateral institutions as the SED and the WTO can provide a neutral setting for the airing and resolution of economic disputes. While these institutions cannot resolve all frictions, they are increasingly believed to be the most appropriate fora for addressing both short-term tensions and long-term policy issues. One speaker noted that the WTO process, in particular, seems to be "maturing," as both the United States and China are increasingly willing to communicate their economic concerns to one another in that setting.

Lin Lu, American Express Corporation

Both sides expressed frustration over not fully understanding the economic priorities of the other country, and called for more open communication on economic goals and concerns.

Discussions throughout the conference revealed a perception that the two countries have a high degree of uncertainty about each other's economic goals. Conferees agreed that the United States and China must commit to open bilateral discussions of their short- and long-term economic goals. At the same time, policy-makers must make their peace with the idea that there are areas in which the two countries' economic interests will diverge, and commit to maintaining a positive relationship within which these contentions can be managed.

It is important to avoid "tit for tat" policy-making.

Several speakers noted that retaliatory policies are counterproductive. They argued that both countries should formulate economic policies based on economic need, not on the desire to "punish" the other nation for having policies they dislike. At the same time, each government also needs to recognize that certain policies are more likely to result in a negative response from the other. For instance, as one speaker pointed out, if China raised tariffs on selected U.S. manufactured goods, this would likely lead to calls for retaliation from the U.S. Congress. To avoid such actions, policy-makers in both countries need to practice vigorous public diplomacy, clearing up misconceptions and educating leaders and citizens on the benefits of the bilateral economic relationship.

Participants floated a number of proposals for improving the domestic economies and bilateral economic relationship of the two countries. These included the following:

- **Creation of an "SED Club"** that includes the members of China's three SED relationships—the United States, Japan, and the European Union—as a multilateral forum for examining high-level global economic issues.
- **Greater U.S. involvement in Asian regional institutions** as a way of guarding against regional economic collapse or decline.
- **Adjustment of China's tax system** to influence domestic demand and decrease the trade imbalance.

Excerpts from Dinner Remarks
Mr. Kenneth H. Jarrett, U.S. Consul General, Shanghai

The significance of economic issues on the bilateral agenda has increased markedly since U.S.-China normalization in 1979. Moreover, economic and trade issues are increasingly a source of tension, when once they helped smooth over periods of difficulty triggered by differences over political/security issues. Another changing aspect of the "politics of economics" is growing protectionist sentiment in both China and the United States. In addition, China's insatiable demand for resources is giving rise to new political tensions as China's footprint grows in Africa, Latin America and the Middle East. In contrast, bilateral cooperation on certain political issues now helps to moderate differences on economic and trade issues.

The list of top concerns of the American business community would look different from that compiled by Washington politicians or academics. The business community's list would reflect their operational concerns. At the top of the list would be human resources—the challenge of attracting and retaining employees. Other top concerns are the regulatory environment, intellectual property rights and national protectionism. The currency issue would not figure high on the list, although the business community agrees that China should move to a flexible, market-based exchange rate. The American business community also has worries about getting caught in the bilateral crossfire on particular issues, such as food and product safety, since there has been Chinese retaliation against some U.S. companies.


Kenneth Jarrett, U.S. Consul General, Shanghai, and Dave Finkelstein, CNA China Studies.

The United States and China have many bilateral mechanisms to address economic and trade issues. The Strategic Economic Dialogue is the latest addition to this arsenal. At the popular level, however, there is still insufficient awareness of the positive benefits of the U.S.-China economic relationship. Greater public education might fill this gap, but equally important, Americans must see that the trade relationship creates jobs for Americans. There is a constant need for short-term concrete outcomes to sustain long-term dialogue. China should shape its "going abroad" strategy so that it wins support in the United States. In addition, China should avoid the tit for tat reaction that has characterized China's response to some of the food and product safety problems, as well as the U.S. decision to raise China's poor intellectual property rights regime in the WTO.

Conference Agenda
Conference Venue: Center for American Studies, Fudan University

June 6:

0845 – 0900: Registration

0900 – 0930: Opening Session

Chair: Shen Dingli, Director, Center for American Studies, Fudan University

Welcoming remarks

Sang Yucheng, Assistant President, Fudan University

Shen Dingli, Director, Center for American Studies, Fudan University

Dave Finkelstein, Vice President, CNA China Studies

0930 – 0945: Group Photo

Panel 1: 0945 – 1115

"The Current State of Bilateral Economic Relations"

Panel Chair: Shen Dingli, Center for American Studies, Fudan University

0945 – 1005: Zhou Dunren, Center for American Studies, Fudan University

1005 – 1025: Evan Medeiros, RAND Corporation

1025 – 1035: Discussant Comments: Jin Canrong, People's University of China

1035 – 1115: Discussion Period

Panel 2: 1135 – 1305

"Challenges in the Current Economic Relationship" (Round 1)

Panel Chair: Robert A. Kapp, Robert A. Kapp & Associates, Inc.

1135 – 1155: Albert Keidel, Carnegie Endowment for International Peace

1155 – 1215: Zhen Bingxi, China Institute of International Studies

1215 – 1225: Discussant Comments: Sheldon Ray, Morgan Stanley

1225 – 1305: Discussion Period

Panel 3: 1405 – 1535

"Challenges in the Current Economic Relationship" (Round 2)

Panel Chair: Zhang Youwen, World Economy Institute, Shanghai Academy of Social Sciences

1405 – 1425: Xu Mingqi, World Economy Institute, Shanghai Academy of Social Sciences

1425 – 1445: Ellen Frost, Peterson Institute for International Economics

1445 – 1455: Discussant Comments: Fu Mengzi, China Institute of Contemporary International Relations

1455 – 1535: Discussion Period

Panel 4: 1555 – 1725

"Challenges in the Current Economic Relationship" (Round 3)

Panel Chair: Ding Xinghao, Shanghai Institute of American Studies

1555 – 1615: Barry Naughton, University of California, San Diego

1615 – 1635: Wang Rongjun, Institute of American Studies, Chinese Academy of Social Sciences

1635 – 1645: Discussant Comments: Wu Xinbo, Center for American Studies, Fudan University

1645 – 1725: Discussion Period

1830 Dinner at Crowne Plaza Fudan

U.S. Keynote Speaker: Mr. Kenneth H. Jarrett,
U.S. Consul General, Shanghai

June 7:

Panel 5: 0900 – 1030

"Managing Economic Relations: Processes & Players"

Panel Chair: Dave Finkelstein, CNA China Studies

0900 – 0920: Huang Renwei, Shanghai Academy of Social Sciences

0920 – 0940: Eric Altbach, The National Bureau of Asian Research

0940 – 0950: Discussant Comments: Wang Jianwei, Department of Politics, University of Wisconsin, Stevens Point

0950 – 1030: Discussion Period

Panel 6: 1045 – 1230

"Opportunities and Challenges Ahead"

Panel Chair: Ellen Frost, Peterson Institute for International Economics

1045 – 1105: Robert A. Kapp, Robert A. Kapp & Associates, Inc.

1105 – 1125: Lin Lu, Department of Risk, Information & Banking, American Express Corporation

1125 – 1135: Discussant Comments: Alison Kaufman, CNA China Studies

1135 – 1215: Discussion Period

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Endnotes:

1 The European Union, as an economic bloc, surpasses the United States in trade with China. However, the U.S. trade with China exceeds that of any country within the European Union. U.S. Census Bureau, Foreign Trade Division; http://www.census.gov/foreign-trade/statistics/highlights/top/index.html.

2 U.S. Census Bureau, Foreign Trade Division; http://www.census.gov/foreign-trade/statistics/highlights/top/index.html.

3 China's rank among national economies changes depending on the measure used. Measured on a purchasing-power parity (PPP) basis, China was the world's second largest economy in 2007; in terms of nominal GDP, however, it stood in fourth place. China was expected to overtake Germany in 2008 as the world's third largest economy in nominal GDP terms. Sources: CIA World Factbook; World Bank; International Monetary Fund; European Central Bank. For GDP figures in PPP terms, see https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html, and http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf. For nominal GDP figures, see http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf and http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx. On China and Germany, see http://www.ecb.eu/press/key/date/2007/html/sp071108.en.html.

4 International Monetary Fund: http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx; U.S. Census Bureau, Foreign Trade Division: http://www.census.gov/foreign-trade/statistics/highlights/top/index.html; World Bank: http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf.

5 *U.S.-China Trade in Context*, policy brief by the U.S.-China Business Council (2008). http://www.uschina.org/public/documents/2008/04/us-china_trade_in_context_2008.pdf.

6 The speaker analyzed this point further in a recent policy brief. See Albert Keidel, *China's Economic Rise—Fact and Fiction*, Policy Brief 61 (Washington, DC: Carnegie Endowment for International Peace, July 2008), pp. 4-5.

7 For just one of many examples linking American job loss to the U.S.-China trade imbalance, see Robert E. Scott, *The China Trade Toll: Widespread Wage Suppression, 2 Million Jobs Lost in the U.S.*, EPI Briefing Paper #219 (Washington, DC: Economic Policy Institute, 20 July 2008).

8 U.S. Treasury Secretary Henry M. Paulson, Jr. recently wrote of the United States and China that "despite the two countries' long history of interaction, they frequently display a stunning ability to misunderstand each other." This sentiment was echoed throughout our conference. Henry M. Paulson, Jr., "A Strategic Economic Engagement: Strengthening U.S.-China Ties," *Foreign Affairs* (Sept./Oct. 2008). http://www.foreignaffairs.org/20080901/faessay87504/henry-m-paulson-jr/a-strategic-economic-engagement.html.

9 For related statistics on trends in the bilateral trade relationship, see *U.S.-China Trade in Context*, policy brief by the U.S.-China Business Council (2008). http://www.uschina.org/public/documents/2008/04/us-china_trade_in_context_2008.pdf.

10 For more on the disparity between the two nations' trade statistics, see Michael F. Martin, *What's the Difference? Comparing U.S. and Chinese Trade Data*, CRS Report for Congress (Washington, DC: Congressional Research Service, 10 April 2007); and U.S. Department of the Treasury, *Semiannual Report on International Economic and Exchange Rate Policies, June 2007*, Appendix II: "China's Trade Data," http://www.treas.gov/offices/international-affairs/economic-exchange-rates/pdf/2007_Appendix-2.pdf.

11 For U.S. bilateral trade statistics, see http://www.census.gov/foreign-trade/balance/C5700.html; for China's bilateral trade statistics, see http://www.chinacustomsstat.com/customsstat.

12 Many of these arguments are echoed in a recent *Financial Times* interview with Cheng Siwei, Vice-Chairman of the Standing Committee of the National People's Congress. Martin Wolf and Geoff Dyer, "Renminbi Rise 'Less Necessary,'" *Financial Times*, 1 September 2008. http://www.ft.com/cms/s/0/35becba0-77bc-11dd-be24-0000779fd18c.html.

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