

Trade and China

Navigating China's Rise Embed a High-Level Trade Strategy

Background

China is the single biggest issue on the U.S. trade agenda today. China's rise is a seismic event. The United States has an enormous stake in shaping China's evolution through bilateral, regional, and global institutions and arrangements. Those in business and government who view China's growth as a benign development have erred by advocating a hands-off approach. Now they are finding their hands tied as the anti-globalization forces have become more vociferous and made free trade more difficult to defend. But both sides have an interest in revamping the economic structures that could shape its rise favorably.

Recommendations

The next President will need a long-term, high-level strategy for addressing trade with China that not only addresses trade agreements, but also vigorously implements domestic policies to ensure that a large majority of Americans thrive in the global economy. In short, this will be a drastic departure from the too-busy-elsewhere policy of recent administrations. Following are five elements essential to a successful approach:

- make preparing America for the rise of China and shaping the surrounding environment in our favor a top, sustained priority
- vigorously implement programs that equip Americans to compete in the global economy (encompassing innovation, education, and infrastructure) and provide social insurance in support of mobility and opportunity
- vigorously pursue a set of critical trade enforcement actions that have the greatest consequences for American competitiveness—with intellectual property theft and China's comprehensive subsidization of its exports as central targets and
- push for more rapid adjustment of China's currency as a critical component of a broader policy (not as a silver bullet) to induce appreciation in Asian currencies and to facilitate an orderly decline in global trade imbalances
- undertake sustained economic diplomacy at the highest levels to shape multilateral and regional economic structures and agreements favorably



Key Facts

- China's growth performance has no precedent by most accounts. China has maintained a 9.6 percent average annual growth rate for the past 26 years, lifting 250 million people out of poverty.
- China's foreign exchange reserves are now approaching \$1 trillion, facilitated by a current account surplus that is expected to exceed \$170 billion (7 percent of gross domestic product) this year.
- China has actively solicited foreign direct investment, eagerly absorbing the process and product know-how and managerial skills that foreign multinationals bring. Half of China's exports are produced by non-Chinese firms and joint ventures located there.
- China today ranks closer to middle-income economies than to developing economies on both education and health indicators.

A full version of this proposal, as well as supporting background material, is available at www.opportunity08.org

About the Authors and the Project

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Lael Brainard is Brookings vice president and director of the Global Economy and Development Program, and holder of the Bernard L. Schwartz chair in International Economics. Brainard, a former international economic adviser to President Clinton, directs Brookings's work relating to global trade, finance, and development. Brainard was part of a select team advising the president on issues including China's accession to the World Trade Organization.

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Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both policy solutions and comprehensive background material on issues of concern to voters.