

Backgrounder

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Tools to Build the U.S.–China Economic Relationship

Derek Scissors, Ph.D.

Abstract: *The scheduled autumn visit of China's next Communist Party General Secretary, Xi Jinping, to Washington is a good opportunity for the U.S. to re-examine its often mismanaged economic diplomacy with China. Policymakers from both parties frequently point to the seemingly exceptional importance of China to the American economy, yet have created an inadequate, almost random, set of institutions to guide bilateral economic relations. Heritage Foundation China and international economics expert Derek Scissors identifies the problems and offers ways to improve the institutional toolkit.*

The U.S. has mismanaged its economic diplomacy with China for the past decade. There are some understandable, perhaps even unavoidable, reasons for this mismanagement but there are also mistakes that should be corrected. A good opportunity is the autumn visit to Washington, D.C., of the next Communist Party General Secretary, Xi Jinping. Vice President Biden is scheduled to travel to China in August to arrange the visit. The Vice President should use these exchanges to change the American approach.

One set of mistakes can be found in the institutional arrangements through which the U.S. engages with China economically. Senior American leaders of all partisan and ideological stripes speak as if China is exceptionally important to the American economy. This would seem to imply a high priority on having the right institutions to guide the relationship—being

Talking Points

- American economic diplomacy toward China is currently wasteful and ineffective.
- The ineffectiveness is partly due to a misaligned institutional structure that has been created haphazardly over time rather than consciously designed.
- Most of the unilateral reporting done by the U.S. and most U.S.–China dialogues are either wasteful or a distraction that contributes to lack of progress on core issues. Existing multilateral institutions do not have the capacity to alter Chinese behavior.
- The U.S. should divide its bilateral efforts into strategic and management dimensions, with the Strategic and Economic Dialogue focusing on a total of two or three strategic objectives at a time.
- New multilateral initiatives, including those not involving China, should incorporate a component aimed at changing China's incentives whenever possible.

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able to choose the right topics of discussion, to have the right people meet, and to make progress in a timely fashion. Yet the set of tools the U.S. uses to deal with the People's Republic of China (PRC) were built awkwardly, almost arbitrarily.

Improvement is possible. The management dimension of the relationship is overemphasized in institutional arrangements, while the strategic dimension receives little beyond lip service and grand dinners. The Sino-American economic relationship certainly needs managing, but changes must be made in order to avoid a strategic clash that could harm the U.S., severely harm China, and harm the global economy.

The U.S. should eliminate some of its unilateral reporting, reduce the ever-increasing number of bilateral dialogues, and de-emphasize many issues. This will help focus high-level diplomatic efforts on a few fundamental strategic objectives. In addition, new multilateral initiatives that do not currently include China, such as the Trans-Pacific Partnership (TPP), can be helpful in creating incentives for the PRC to make desired changes.

The True Economic Context

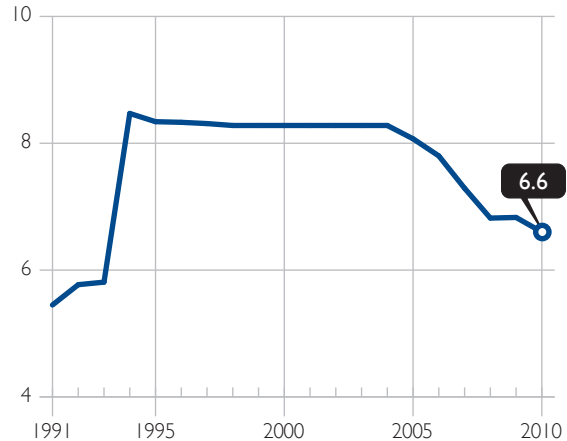
The present importance of the PRC to the American economy is usually overstated for political reasons. It is easier to blame another country than policies brewed at home. China did not instigate the financial crisis, nor did it create the federal budget deficit, and it is not nearly as important to the American economy as those looking for an economic scapegoat often argue.

Beijing's currency policy is routinely cited as the cause of American unemployment. The record shows this is untrue: China's sharp devaluation in 1994, which caused the yuan to be undervalued against the dollar, coincided with eight consecutive years of declining American unemployment. When unemployment then rose for three straight years in the early 2000s, the yuan's nominal exchange rate against the dollar had not budged.

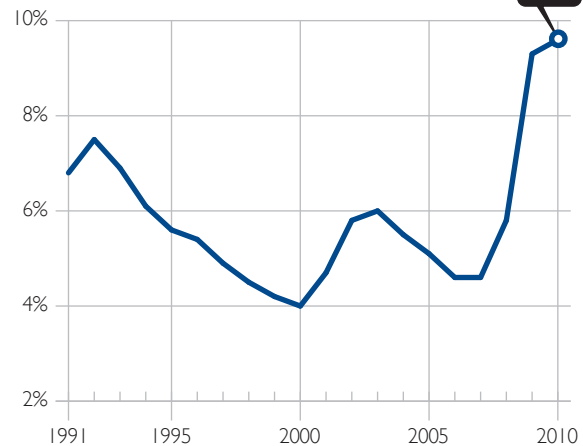
Nor is the exchange rate costing American jobs now. Jobs have been lost by the millions over the past three years, while the yuan has either held steady or been rising against the dollar.

The Chinese Yuan's Value and U.S. Unemployment

Dollar Value in Yuan



U.S. Unemployment Rate



Sources: X-Rates.com, Historic Exchange Rates, at <http://www.x-rates.com/cgi-bin/hlookup.cgi> (June 6, 2011); and U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, at http://www.bls.gov/cps/prev_yrs.htm (June 6, 2011).

Chart 1 • B 2590  heritage.org

There are, of course, genuinely important economic links between the U.S. and China: Annual bilateral trade approaches \$500 billion. The PRC has stored \$2 trillion in balance of payment surpluses in U.S. securities.¹ Such large flows bring with them policy and commercial practices by both sides that can be exceptionally beneficial or excep-

tionally harmful. The practices can affect product quality, cross-national legal judgments, representation in multinational institutions, and the like. Items like these must be addressed, but can be handled in technical discussions. It is not necessary to address them in a high-level strategic forum.

On the other hand, there are fundamental issues that can only be addressed in a high-level strategic forum. These issues feature: (1) Chinese over-saving and American under-saving; (2) on the Chinese side, market access barriers typically tracked to privileges granted to state-owned enterprises; (3) on the American side, punitive threats aimed at market access; (4) Chinese holdings of U.S. government bonds; (5) intellectual property rights; (6) energy and environmental concerns; and (7) adherence to World Trade Organization (WTO) requirements.²

These issues require strategic decisions about priorities and sacrifices. If such decisions are ever made, lower-level policymakers can gather and work on technical aspects of implementation. That they have not been made has created a seemingly permanent sense of danger and insecurity in the bilateral economic relationship.

This outcome might be acceptable if the two countries had little contact. But the U.S. and PRC now have a great deal of contact, informal and formal. Annual summits, numerous visits by cabinet officials, multiple bilateral dialogues, side meetings of top leaders in multinational fora—China and America have more than enough opportunities to work out at least some differences.³

While certain disagreements may be effectively irresolvable, others are not. There has been little progress on core issues in bilateral economic relations since China's WTO accession in 2001. The U.S. is both the more powerful party and much more often the party that wants substantial change, so it is incumbent upon the U.S. to initiate an institutional structure which facilitates change. This has not been done. Instead, the arrangements that govern Sino–American economic relations mix strategic and management goals in a haphazard manner that stymies progress.

How the U.S. and China Talk

Institutional economic arrangements can be loosely described as multilateral, bilateral, and “unilateral.” The last refers to actions that pertain to the relationship but are taken solely by the U.S., such as the publishing of congressionally mandated reports by cabinet departments. There are annual and special reports from congressionally established commissions that exclusively consider China. There is also serial reporting from the executive branch. Prominent here are the Department of the Treasury's biannual assessments of currency policy and the United States Trade Representative's annual trade estimates and intellectual property reports.⁴

Bilateral arrangements include both regular dialogues and scheduled meetings between principals. Almost the entire set might be labeled as under the umbrella of the Strategic and Economic Dialogue (S&ED). Indeed, this was part of the original justification for the then-Strategic Economic Dialogue

1. U.S. Census Bureau, “Foreign Trade: Trade in Goods with China (1985–2011),” July 12, 2011, at <http://www.census.gov/foreign-trade/balance/c5700.html#2009> (July 22, 2011), and Derek Scissors, “Chinese Investment in the U.S.: \$2 Trillion and Counting,” Heritage Foundation *WebMemo* No. 3169, March 1, 2011, at [http://www.heritage.org/research/reports/2011/02/chinese-investment-in-the-us-\\$2-trillion-and-counting](http://www.heritage.org/research/reports/2011/02/chinese-investment-in-the-us-$2-trillion-and-counting).
2. Wayne M. Morrison, “China–U.S. Trade Issues,” Congressional Research Service, June 2, 2011, at <http://www.fas.org/sgp/crs/row/RL33536.pdf> (July 24, 2011).
3. For example, press release, “United States Hosts Third Meeting of the U.S.–China Forum on Combating Illegal Logging and Associated Trade,” United States Trade Representative, November 9, 2010, at <http://www.ustr.gov/about-us/press-office/press-releases/2010/november/united-states-hosts-third-meeting-us-china-forum> (July 22, 2011), and “U.S., China Haggles Over Deals Before Meeting,” *The Wall Street Journal*, January 15, 2011, at <http://www.foxnews.com/world/2011/01/15/china-haggles-over-deals-meeting/> (July 22, 2011).
4. For example, United States Trade Representative, “2011 National Trade Estimate Report on Foreign Trade Barriers,” March 2011, at <http://www.ustr.gov/about-us/press-office/reports-and-publications/2011-0> (June 24, 2011), and U.S.–China Economic and Security Review Commission, “Recommendations to Congress: Annual Reports (2002–2010),” at http://www.uscc.gov/annual_report/recommendations.php (July 22, 2011).

(SED): to improve economic diplomacy between America and China by unifying increasingly far-flung components in a strategic conversation. At the creation of the SED, President George W. Bush indicated the “need to establish an overarching bilateral economic framework.”⁵

This goal has not come anywhere close to being met. The initial announcement of the SED tasked it with examining long-term strategic issues “rather than seeking immediate solutions to the issues of the day.”⁶ Judging by the SED’s and S&ED’s development since, there appears to be a very large num-

ber of long-term strategic issues. There have been many communiqués. There has not been progress to justify the value of the overarching framework as initially envisioned.

The result, when the Joint Commission on Commerce and Trade (JCCT) and other arrangements are included, is an incoherent proliferation of groups and discussions. These appear to have no logical relationship whatsoever—some topics can easily fit in three or more forums, and there is no functional relationship between any of the dialogues and working groups.

Too Much Contact, Too Little Success⁷

JCCT

Trade

1. Transparency Dialogue
2. Trade Remedies Working Groups
3. Anti-Monopoly Dialogue
4. Commercial Law Working Group
5. Structural Issues Working Group
6. Business Development and Industrial Cooperation Working Group
7. Telecommunications Dialogue
8. Insurance Dialogue
9. Industries and Competitiveness Dialogue
10. Broadband Wireless Internet Protocol Standard Group

11. Statistics Working Group
12. High-Technology and Strategic Trade Working Group
13. Industrial and Innovation Policies Dialogue

Intellectual Property Rights

14. Intellectual Property Rights Law Enforcement Group
15. Intellectual Property Rights Criminal Enforcement Working Group
16. Government and SOE Procurement Group
17. Intellectual Property Rights Working Group on Software Legalization

5. Press release, “Statement by the President,” The White House, September 20, 2006, at http://shanghai.usembassy-china.org.cn/u.s.-china_economic_dialogue.html (July 22, 2011), and David J. Lynch, “High-Level Economic Talks Planned for U.S., China,” *USA Today*, September 20, 2006, at http://www.usatoday.com/money/world/2006-09-20-china-talks_x.htm (July 22, 2011).
6. Press release, “Statement by the President.”
7. Council on Foreign Relations, “Fact Sheet: U.S.–China Joint Commission on Commerce and Trade, October 2009,” October 2009, at <http://www.cfr.org/china/fact-sheet-us-china-joint-commission-commerce-trade-october-2009/p20683> (July 22, 2011); press release, “U.S.–China Strategic and Economic Dialogue 2010 Outcomes of the Strategic Track,” U.S. Department of State, May 25, 2010, at <http://www.state.gov/r/pa/prs/ps/2010/05/142180.htm> (July 22, 2011); press release, “U.S.–China Joint Commission on Commerce and Trade,” United States Trade Representative, October 29, 2009, at <http://www.ustr.gov/about-us/press-office/fact-sheets/2009/october/us-china-joint-commission-commerce-and-trade> (July 22, 2011); press release, “Third Meeting of the U.S.–China Strategic & Economic Dialogue Joint U.S.–China Economic Track Fact Sheet,” U.S. Department of Treasury, May 10, 2011, at <http://www.treasury.gov/press-center/press-releases/Pages/tg1170.aspx> (July 22, 2011); “Trade Policy Initiative: U.S.–China Joint Commission on Commerce and Trade (JCCT) Working Groups,” Export.gov, at http://export.gov/china/doingbizinchina/tradepolicydialog/eg_cn_026541.asp (July 26, 2011); “China’s JCCT Commitments, 2004–10,” US–China Business Council, January 21, 2011, at http://www.uschina.org/public/documents/2011/01/jcct_commitments.pdf (July 22, 2011); and Nina Hachigian, “Looking Past the ‘Orchestra Pit on China,” *Democracy Arsenal*, May 13, 2011, at <http://www.democracyarsenal.org/2011/05/looking-past-the-orchestra-pit-on-china.html> (July 22, 2011).

Too Much Contact, Too Little Success (continued)**Sectors**

- 18. Agricultural Trade Working Group
- 19. Textiles Consultative Group
- 20. Travel and Tourism Working Group

- 21. Information Industry Working Group
- 22. Steel Dialogue
- 23. AQSIQ Technical Group
- 24. Joint Liaison Group on Law Enforcement

S&ED**Energy**

- 25. Climate Change Policy Dialogue
- 26. Energy Policy Dialogue
- 27. Ten Year Framework (TYF) Joint Working Group (energy-related)
- 28. U.S.–China Energy Efficiency Forum
- 29. Oil and Gas Industry Forum
- 30. Renewable Energy Forum
- 31. Advanced Biofuels Forum

Regional

- 32. Africa Dialogue
- 33. Central Asia Dialogue
- 34. Latin America Dialogue
- 35. South Asia Dialogue

Sectors

- 36. Forum on Traditional Chinese Medicine
- 37. Transportation Forum
- 38. Railway Program Exchange
- 39. Joint Working Group of Agricultural Science and Technology Cooperation

- 40. Export Controls Dialogue
- 41. Legal Experts Dialogue
- 42. Forum on Combating Illegal Logging

Other

- 43. Anti-Corruption Working Group
- 44. Investment Forum
- 45. Policy Planning Dialogue
- 46. Initiative on City-Level Economic Cooperation
- 47. U.S.–China Governors Forum to Promote Sub-National Cooperation

Quasi-Independent

- 48. Joint Experts Dialogue on Rules of Origin
- 49. Annual Labor Dialogue
- 50. High-Level Consultation on People-to-People Exchange
- 51. Healthcare Forum
- 52. Economic Development and Reform Dialogue
- 53. Joint Financial Committee
- 54. Joint Commission on Science and Technology

Economic Relationship Rests on Two Very Different Pillars⁸

Established in 1983, the JCCT has since expanded in response to the developing bilateral relationship. The JCCT meets annually to discuss trade and investment, business development, industrial cooperation, commercial law, and export controls. The American side is now represented by the Secretary of Commerce and the U.S. Trade Representative; the Chinese side, by a vice premier.

The SED was established in 2006 and became the S&ED in 2009. The economic track addresses broader issues than typically discussed in the JCCT, with emphasis on finance and energy. The U.S. Treasury Secretary leads the American side and a vice premier leads the Chinese side.

8. Press release, “The First U.S.–China Strategic Economic Dialogue December 14–15,” Beijing Fact Sheet, U.S. Department of the Treasury, December 15, 2006, at <http://www.treasury.gov/press-center/press-releases/Pages/hp205.aspx> (July 22, 2011), and “Backgrounder: China–U.S. Joint Commission on Commerce and Trade,” *People’s Daily Online*, December 15, 2010, at <http://english.peopledaily.com.cn/90001/90776/90883/7231251.html> (July 22, 2011).

The now-constant trips by cabinet officials from both sides often overlap with the formal dialogues but also may include discussion of still more issues. The visits by chiefs of state, typically every 12 to 15 months, have the unique potential to depart from and alter the existing structure—helpfully or harmfully—though they have not done either recently.⁹

Finally, multilateral institutions, such as the Asia-Pacific Economic Community, offer two means by which the U.S. can engage the PRC. The first is the potential effects of multilateral agreements, such as the Doha round of WTO negotiations, a potential free trade agreement for the Asia Pacific, or from the presidential and ministerial G-20 conclaves. In principle, such agreements could powerfully shape bilateral economic relations.

The second is side meetings between the U.S. and China at multilateral events.¹⁰ These are plainly informal but are a repeated and expected occurrence, offering the opportunity to coordinate on multilateral matters at hand and address any acute bilateral problems.

The Value of Just Talking

When Sino-American economic discussions are disappointing, as they usually are, the standard defense of the *status quo* is the value in “just continuing to talk.”¹¹ While unsatisfying, there is some merit here. There is value to decision makers at all levels, in what are now the two largest economies, consulting on a regular and publicly disclosed basis. This is especially the case with economies and policymaking processes as profoundly different as those

of America and China—where chances are high for a simple but dangerous misunderstanding.

Better understanding each other’s broad concerns, constraints, and priorities is good use of time but, if this is the goal, the enormous U.S. economic diplomatic commitment to the PRC is wasteful. Government reports, such as on currency policy, which feign as if the U.S. is trying to accomplish meaningful things, are pointless on this score. So is the complex framework the S&ED has become. Simple discussion at the cabinet level is all that is necessary for better understanding.

The profound bilateral differences, however, indicate the need for progress well beyond continued talk. If the two largest economies cannot harmonize to some extent on investment and saving, for example, the imbalances that contributed to the financial crisis will worsen.¹² China’s growing global share in GDP and other measures makes substantial progress more necessary as time goes on. When dealing with the PRC, national-government-to-national-government approaches are unavoidable and may in fact be the only way to force difficult change.

Among the core issues listed, the WTO settlement process itself is hardly ideal but is not driving U.S.–China disputes. Similarly, China’s holding truly massive quantities of American debt is unhealthy but has not caused the problems routinely ascribed to it.¹³

The remaining issues show poor results. Protection of intellectual property does not appear to have improved despite years of American efforts. Market access to the PRC can arguably be said to be dete-

9. Press release, “U.S.–China Joint Statement,” The White House, January 19, 2011, at <http://www.whitehouse.gov/the-press-office/2011/01/19/us-china-joint-statement> (July 22, 2011).

10. “Obama, Wen Huddle in a Side Meeting at U.N.,” CNN, September 23, 2010, at http://articles.cnn.com/2010-09-23/world/un.china.wen.meeting_1_chinese-premier-wen-jiabao-global-economy-president-barack-obama?_s=PM:WORLD (July 22, 2011).

11. Elisabeth Bumiller, “U.S. and China Defense Chiefs Agree to Keep Talking,” *The New York Times*, January 10, 2011, at <http://www.nytimes.com/2011/01/11/world/asia/11military.html> (July 22, 2011).

12. Steven Dunaway, *Global Imbalances and the Financial Crisis* (New York: The Council on Foreign Relations, 2009); “CBO’s 2011 Long-Term Budget Outlook,” Congressional Budget Office, June 2011, at http://www.cbo.gov/ftpdocs/122xx/doc12212/06-21-Long-Term_Budget_Outlook.pdf (July 22, 2011); and “Prepare for an Attack of the China Bears,” *The Wall Street Journal*, May 25, 2011, at <http://blogs.wsj.com/chinarealtime/2011/05/25/prepare-for-an-attack-of-the-china-bears> (July 22, 2011).

13. Derek Scissors, “Misconception on China’s Role in Financing the U.S. Deficit,” Heritage Foundation Commentary, March 24, 2010, at <http://www.heritage.org/Research/Commentary/2010/03/Misconceptions-on-Chinas-Role-in-Financing-the-US-Deficit> (June 24, 2011).

riorating, and market access to the U.S., though extensive, remains under constant political threat.¹⁴ While energy and the environment are thought to be areas of notable bilateral cooperation, Chinese coal use and carbon emissions are now by far the world's largest and the rate of climb does not appear to be slowing.¹⁵ Economic imbalances have clearly worsened, driven to a considerable extent by worsening Chinese overinvestment.¹⁶

Comparing the Institutions

Some ways in which America engages the PRC have proved more effective than others. The United States Trade Representative's annual report on intellectual property may have proved helpful elsewhere in the world, but not in China. The biannual currency report is close to a farce—its content never varies in meaningful fashion and it is now published on a political schedule.¹⁷

If a U.S. Administration does not have a coherent view of the PRC that permeates the bureaucracy, scattered reports from various agencies merely waste time and resources. They cannot build toward any achievement. The U.S. government's public reporting on Sino-American economic relations is purely for domestic political purposes; it has shown no value in advancing American goals and should be sharply reduced.

Bilateral tools are more numerous and more diverse in performance. On its own terms, the JCCT

has been successful. It was established at a time when China was a newly reforming economy with a small global presence, and bilateral economic problems were technical rather than strategic. The JCCT has maintained this focus, and progress has continually been made at the level of policy implementation. It was not designed to, and has barely attempted to, address matters of structural adjustment, leaving these unaddressed until the SED was created.

Beyond talk, the SED, and then S&ED, as a whole have failed. On strategic issues, such as market access, there has been negligible progress attributable to the S&ED or even deterioration. Worse, there does not appear to be a strategy—in the form of long-term priorities and preferred means to attain objectives—for either the Bush or Obama Administrations individually, much less a consistent approach across Administrations.

To illustrate, energy and the environment are typically presented as areas of cooperation, with multiple agreements inked at every major meeting. These agreements, however, did nothing to mitigate profound differences between the U.S. and China seen at the Copenhagen summit, for instance.¹⁸ Further, China has not budged from its energy use path. A coal exporter when the SED was established, it became the world's second-largest coal importer just a few years later, as well as the second-largest oil importer, even while restricting some energy-related exports.¹⁹

14. Howard Schneider, "House Backs Tariffs on China in Dispute Over Currency Policy," *The Washington Post*, September 30, 2010, at <http://www.washingtonpost.com/wp-dyn/content/article/2010/09/29/AR2010092907294.html> (July 22, 2011), and Helene Cooper and Mark Landler, "U.S. Shifts Focus to Press China for Market Access," *The New York Times*, January 18, 2011, at <http://www.nytimes.com/2011/01/19/world/asia/19prexy.html> (July 22, 2011).

15. Derek Scissors, "The 'Beijing Consensus' in Energy and the Environment," Heritage Foundation *WebMemo* No. 2970, July 26, 2010, at <http://www.heritage.org/Research/Reports/2010/07/The-Beijing-Consensus-in-Energy-and-the-Environment>.

16. George Magnus, "China Risks Credit-Fuelled Minsky Moment," *Financial Times*, May 3, 2011, at <http://www.ft.com/cms/s/0/44351852-75b5-11e0-80d5-00144feabdc0.html#axzz1Q3bIgtzL> (July 22, 2011).

17. "UPDATE 2—US Says China Yuan Undervalued, But Not Manipulated," Reuters, May 27, 2011, at <http://www.reuters.com/article/2011/05/27/usa-china-currency-idUSN2717209820110527> (July 22, 2011).

18. Bryan Walsh, "Frustration Mounts in Copenhagen as Talks Stall," *Time*, December 15, 2009, at http://www.time.com/time/specials/packages/article/0,28804,1929071_1929070_1948020,00.html (July 22, 2011), and press release, "U.S.—China Clean Energy Announcements," The White House, November 17, 2009, at <http://www.whitehouse.gov/the-press-office/us-china-clean-energy-announcements> (July 22, 2011).

19. James Regan, "China's Rare Earths Export Cut Spurs Trade Concerns," Reuters, December 29, 2010, at <http://www.reuters.com/article/2010/12/29/us-china-rareearth-idUSTRE6BR0KX20101229> (July 22, 2011), and Rebekah Kebede and Michael Taylor, "RPT—WRAPUP 1-China Coal Imports to Double in 2015, India Close Behind," Reuters, May 30, 2011, at <http://www.reuters.com/article/2011/05/31/coal-asia-idUSL3E7GV01620110531> (July 22, 2011).

In another area of emphasis, intellectual property rights, the U.S. and China have spent a great deal of time and effort with very few results. Simply because the relationship is important does not mean that every issue must be discussed, especially when this universalist approach has fared so poorly. Many of the components of the S&ED should just be disbanded.

Types of U.S. Approaches to Date

Type	Principal Strength	Principal Weakness
Unilateral	Domestic political outlet	No impact
Regular bilateral (dialogue)	Better technical cooperation	Overdone and wasteful
Scheduled bilateral (summit)	Better crisis cooperation	No long-term impact
Multilateral	Reassures other partners	Can water down aims

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At this point in the Sino–American economic relationship, meetings between heads of governments are necessary. There is considerable value in the principals having contact prior to a crisis such as seen in autumn 2008. Beyond that, some political theater is unavoidable. However, the high-level visits now often simply repeat the substance of scheduled bilateral dialogues with no discernable movement toward strategic objectives. The U.S. seems to take twice as long to accomplish the same things, which are fairly minor to start. As with the dialogues, there is obviously not

a set of true economic priorities for the presidential summits. Individual cabinet-level meetings may have particular goals, but also lack any strategic direction.²⁰

In multilateral arenas, the communication associated with the G-20 meetings immediately after the collapse of Lehman Brothers shows the value of Sino–American economic coordination. The appearance of conflict or misunderstanding between Beijing and Washington in autumn 2008 might have triggered global panic.²¹ Since then, though, the G-20 has accomplished little, even while the utter lack of progress in rebalancing threatens another crisis. At the International Monetary Fund, modest Sino–American cooperation has helped shift voting weights in a sensible direction, but has done little in the far more important matter of China’s balance of payments liberalization.

The WTO is perhaps the most obvious forum to make progress. WTO adjudication certainly seemed like an obvious solution to bilateral disputes at the time of the PRC’s accession a decade ago. The WTO has since been revealed to be ponderous in dispute resolution, effectively permitting years of “illegal” behavior before penalties can be imposed.²²

Sino–American communication at the WTO rounds has not only failed to speed bilateral talks, it has failed to assist in the long-delayed and perhaps greatly diminished Doha round.²³ The WTO inhibits protectionism—a worthy feat—but, as China has risen, it now does little more. A free trade agreement of the Asia Pacific is a superb vision but even its first step on this path, the Trans–Pacific Partnership (TPP), is years away from completion.

20. Michael Forsythe, “Chu ‘Optimistic’ on Climate Talks After China Visit (Update 1),” Bloomberg, July 16, 2009, at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aobOWRQQQtU> (July 22, 2011), and “The Hu–Obama Summit: Big on Symbolism, Less So on Substance,” Knowledge@Wharton, February 2, 2011, at <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2708> (July 22, 2011).
21. “Paulson Praises China’s Cooperation in Easing Financial Crisis,” *The New York Times*, October 22, 2008, at <http://www.nytimes.com/2008/10/22/business/worldbusiness/22iht-22paulson.17155092.html> (July 22, 2011).
22. “China Fails to Implement WTO Ruling in Audiovisuals Case, or What Did We Expect?” China Copyright and Media, March 24, 2011, at <http://chinacopyrightandmedia.wordpress.com/2011/03/24/china-fails-to-implement-wto-ruling-in-audiovisuals-case-or-what-did-we-expect/> (July 22, 2011).
23. “China Disappointing, India ‘Mixed’ on WTO Doha Talks: US,” *The Economic Times*, January 13, 2011, at http://articles.economictimes.indiatimes.com/2011-01-13/news/28428276_1_doha-negotiations-michael-punke-substantive-negotiations (July 22, 2011).

The Way Forward

The current, U.S.-driven institutional structure looks like nothing so much as a way to portray the U.S.–China economic relationship as vital, while accomplishing little. At present, the balance of evidence suggests the PRC is not exceptionally important to the American economy.

Right now, China is one major American partner, among Canada, Japan, Britain, and Germany. There is no particular need for regional or most sector discussions, such as for transportation, and for a strategic economic dialogue solely with the PRC. The next few presidential summits can focus largely on security issues. Among unilateral actions the U.S. can take, China should be de-emphasized in American government economic reports (with the welcome effect of de-emphasizing the reports themselves). In multilateral forums, the U.S. can alleviate unwarranted fears of U.S.–China condominium by elevating discussions with other partners and de-emphasizing discussions with China.

China certainly has the potential to become qualitatively different than other important American partners. Not only is it bigger in GDP, it is now global in trade on a scope second only to the U.S. Present institutions are extensive but utterly unsuitable to create the best conditions for progress. Superficial engagement in the form of an explosion in bureaucracy is a very poor substitute for identifying difficult but necessary tradeoffs.

The various China reports issued by the U.S. government accomplish nothing in terms of changing Chinese behavior. Despite the encouraging name, bilateral discussions under the umbrella of the Strategic (and) Economic Dialogue never seem to have a strategic focus and, as they continue to proliferate, risk losing any coherence whatsoever. They have become the cover story for the failure to act on fundamental matters, that is, nothing was accomplished but the two sides agreed to create several more working groups.

In contrast, multilateral forums are underused. Forming coalitions to confront China in existing

forums faces well-known obstacles.²⁴ But another tactic is available: use or create multilateral institutions where China cannot participate until it meets certain conditions. The obvious example at present is the TPP—a trade group that might be able to achieve liberalization well beyond the stalled WTO process. In addition, a Western Hemisphere free trade area would indirectly force Chinese trade practices to improve, at the risk of losing market share.

Such efforts have great value in themselves but, to assist American economic diplomacy with respect to the PRC, they must also contain a China strategy. If multilateral diplomatic work is consciously and persistently coordinated, the terms, the participants, and the timing and sequence of new initiatives will create incentives for China to change its behavior.

The U.S. therefore should:

- **Match** American objectives in economic diplomacy with the PRC with the institutional structure created. If objectives are limited, the now-elaborate structure should be sharply curbed.
- **Curb** unilateral reporting on China, as it is entirely unhelpful. Treasury's currency report, for example, has degenerated into a government relations exercise.
- **Eliminate** many bilateral dialogues, such as the S&ED's Anti-Corruption Working Group. Consolidate others, such as the JCCT's Business Development and Industrial Cooperation Working Group, Industries and Competitiveness Dialogue, and Industrial and Innovation Policies Dialogue.
- **House** the few discussions most needed to manage the economic relationship, such as on intellectual property rights and investment, under the JCCT.
- **House** only dialogues that pertain to a clear strategic goal; for example, liberalization of the PRC's balance of payments, under the S&ED. When appropriate, greater priority can be attached to

24. Jim Randle, "Brazil Says US, China Both Cause Currency Problems," Voice of America, February 15, 2011, at <http://www.voanews.com/english/news/americas/Brazil-Says-US-China-Both-Cause-Currency-Problems-116252319.html> (July 22, 2011).

this goal by the Vice President leading the American delegation and proposing that China to be represented by the Premier (typically the third-ranking Party official).

- **Coordinate** with—not duplicate—the S&ED at presidential meetings, focusing the economic component tightly on a single strategic objective. Cabinet-level meetings should be coordinated with the JCCT and feature management of the economic relationship.
- **Stress** relationship management when engaging China at existing multilateral institutions (given the demonstrably limited capacities of organizations like the WTO to achieve strategic goals).
- **Incorporate** a China strategic component in new multilateral endeavors whenever possible. For example, the TPP should emphasize curbing subsidies for state-owned enterprises.

Unclutter a Vital Economic Relationship

For years, senior American officials and political representatives have talked as if the economic relationship with China is critical, while the U.S. has had no substantive strategy. U.S. interests have been poorly served by the ever-expanding pile of reports, dialogues, and side meetings.

The institutional structure of Sino–American economic relations must be considerably trimmed and reshaped. The new structure will include some of the bilateral management tools which presently exist but narrowly focus other bilateral arrangements on a few strategic objectives. Multilateral efforts can also play an important role, by indirectly pushing the PRC to change in ways the U.S. has been directly, but unsuccessfully, advocating.

—*Derek Scissors, Ph.D.*, is Research Fellow in Asia Economic Policy in the Asian Studies Center at The Heritage Foundation.