

## U.S. Briefing B: American Businesses and Workers are Harmed by Trade with China

In this simulation, you will be part of a team of negotiators representing the United States in trade talks with China. **Your goal is to represent the interests of American businesses and workers who are harmed by trade and investment with China** and to ensure that any agreement reached between the two countries will reflect these interests.

**If no agreement is reached by the end of negotiations, tariffs on \$200 billion worth of Chinese goods will increase from 10% to 25%.** To put this figure in perspective, the United States imported approximately \$522.9 billion worth of goods and services from China and exported \$187.5 billion in 2017.

### Why Trade with China Harms U.S. Economic Interests

China's entry into the World Trade Organization (WTO) in 2000 profoundly and rapidly reshaped global trade flows. China's rapid export-led growth was achieved in significant part through aggressive acts, policies, and practices that fall outside of global norms and rules:

China has protected its domestic markets through non-tariff barriers and other regulatory hurdles for foreign firms while expanding its share of global markets through industrial policies. Beijing's ultimate goal is for domestic companies to replace foreign companies as designers and manufacturers of key technology and products first at home, then abroad. China has used subsidies to grow its industries aggressively, resulting in overcapacity and flooding the world market with cheap steel, aluminum, and solar panels while putting their American competitors out of business. China has also kept its currency (the renminbi) artificially cheap in order to boost its own exports. It has been lax in enforcing labor, environmental, health, and safety standards that allow its firms to unfairly compete against American firms, who are held to higher standards.

Recent research has found that American workers in industries exposed to Chinese import competition *still* have not recovered from this China trade shock. They regularly experience job churn (meaning that they're going from low-wage job to low-wage job), their earnings have been reduced, and they're more likely to be on welfare. It is estimated that as many as 3.4 million jobs has been displaced by a growing trade deficit with China.

In policy documents such as Made in China 2025 (MiC 2025), China has articulated the target list of technology sectors -- such as robotics, new energy vehicles, and aerospace -- that it seeks to dominate. Meanwhile, leveraging these technological acquisitions, China invests heavily in building up these industries domestically via policy banks, state-owned commercial banks, and various state-backed venture funds, again quickly resulting in excess capacity. It is estimated that China has already accumulated significant overcapacity in the production of electric vehicle batteries and industrial robots. Then, pursuing an aggressive downward pricing strategy, China can again displace American businesses and workers, this time at the top of the global production chain in innovative and advanced manufacturing.

Now, as China seeks to move up the global value chain, it continues to rely on aggressive tactics outside of global rules. The Chinese government funds companies to acquire key technologies and steal intellectual property (IP) from the United States in order to capture the emerging high-technology industries that will drive future economic growth. Through a combination of state-sponsored IP theft, cyber espionage, evasion of export control laws, forced technology transfers from foreign companies,

economic coercion using monopsony purchasing power, and infiltration of American centers of innovation, the Chinese State seeks to access the crown jewels of American technology and intellectual property.

At the same time that China demands transfer of technology as a condition of access to the Chinese market, it requires foreign companies to enter into joint ventures and to engage in research & development as well as data localization. It also routinely discriminates against foreign companies in administrative approvals and licensing, in government procurement, and in selective enforcement of antitrust law. The government also encourages Chinese students to collect information on dual-use technologies and engages in talent recruitment to support indigenous research capacity. In recent years, state backed sovereign wealth funds and state affiliated venture capital have also taken an active interest in acquiring foreign IP through purchasing a controlling stake in U.S. companies.

### **Concerns about U.S. China Trade and Investment Relations**

Because you represent interests that are harmed economically by trade with China, your main concerns are over China's violation of established global trading rules (esp. the non-tariff barriers) and China's aggressive industrial policies that put American industries at a disadvantage. You are both concerned about the traditional manufacturing industries that have already been hurt by China's industrial overcapacity over the last two decades and about the new and emergent industries where China is poised to take a lead through the aggressive use of industrial policies, IP theft, forced technology transfer, economic espionage, and strategic overseas investment to acquire technologies.

You are also concerned about the trade deficit. From your perspective, the persistent trade deficit reflects just how much trade with China has hurt American economic interests. Of the \$891 billion goods deficit, over \$650 billion consists of manufactured consumer goods and automobile parts. The concentration of the deficit in the manufacturing sector highlights how many jobs Americans have lost due to exposure to Chinese imports.

### **Forming a Negotiation Strategy: Use American Leverage to Pressure China to Follow the Rules of Global Trade**

For decades, the United States have urged China to further liberalize its economy and honor its WTO commitments. After years of failed dialogue, the U.S. need to take a much more aggressive approach to combating China's trade practices, which unfairly advantaged Chinese firms at the expense of American workers. China is much more dependent on trade with the United States than the other way around. Foreign trade is responsible for a much smaller proportion of American GDP compared to China. Only roughly 15 percent of American imports come from China and much of this trade consists of basic types of manufactured consumer goods (ex. clothing, textiles, footwear, toys, small appliances, etc.) that can be imported from other countries or could be produced domestically. The prices for goods that could substitute for products from China would be higher, but the difference in costs would be relatively small.

Furthermore, the history shows that, if there is no external pressure, there is less incentive for Beijing to change policy. In the 1990s, Premier Zhu Rongji was successful in pushing through major structural reforms that dismantled the strangle hold of state-owned enterprises (SOEs) on the economy ahead of China's entry into the WTO, and in the face of conservative opposition at home, due in no small part to U.S. pressure.

The United States should therefore exercise its economic leverage over China to force it to play by the rules of global trade and investment once and for all. Specifically, Washington need to make clear to Beijing that China must implement structural changes with respect to its practice of industrial policies, forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.

### **Policy Recommendations**

The United States should insist that China commit to global norms and rules in trade and investment policies with measures such as (recommended allocation of national point values):

#### High Priority Asks (20-40 Points)

1. **Reduce the trade deficit between China and the U.S. by \$100-200 billion by 2020** (this would benefit American producers and also help the president in the 2020 reelection campaign)
  - a. China to Increasing import of American agricultural products.
  - b. China to Increasing import of American energy products.
2. **Cease subsidies and other forms of assistance that support industries targeted in the MiC 2025 plan and other emerging and strategic industries** (these policies unfairly support industries such as steel, aluminum, as well as emergent and strategic industries targeted in the MiC 2025 industrial plan, eliminating them would correct the market distortions that favor Chinese industries in global competition)
3. **Remove specified non-tariff barriers and recognize that the U.S. may impose import restrictions** and tariffs on products in critical sectors, including sectors identified in the MiC 2025 industrial plan (non-tariff barriers are regulatory policies that restrict trade or subsidies that help domestic companies at the expense of foreign competitors, the U.S. must protect its businesses from the malicious effects of Chinese industrial policies involving these barriers through tariffs)
4. **Strengthen intellectual property protection**, trade secret protection, and counterpiracy enforcement (again these practices hurt innovative U.S. firms while helping their Chinese competitors)

#### Low Priority Asks (10-20 Points)

5. **Eliminate specific policies and practices linked to forced technology transfer** (foreign companies should not be forced to surrender technology through mandatory joint venture agreements when operating in China, these practices hurt innovative U.S. firms while helping their Chinese competitors)
6. **Cease government-sponsored or tolerated cyber espionage and intrusions into U.S. commercial networks** (China has abandoned the "hacking truce" negotiated under the previous U.S. administration since trade tensions escalated in 2018, this ask simply calls on China to honor its prior commitments as part of any new agreement)
7. **Eliminate laws and regulations, such as licensing or procurement**, that treat foreign entities less favorably than domestic Chinese firms (this would create a level playing field and strengthen the ability of U.S. companies to compete in the Chinese market)
8. **Remove or reduce investment restrictions identified by the U.S.** on a timetable to be decided by both nations (this would improve market access for U.S. companies in China and remove regulatory barriers for foreign investors in sectors such as financial services; agricultural biotechnology; new-energy and combustion vehicle manufacturing; cloud computing and telecommunications services; internet-related services; and legal services)

9. **China to issue an improved nationwide negative list for foreign investment** and allow the U.S. to identify existing investment restrictions that deny U.S. investors market access (the negative list sets apart some sectors that are not open for foreign investment, a shorter negative list is better from a U.S. perspective)

In exchange, the U.S. can offer concessions such as:

Major Concessions (-20-40 points Individual Points)

1. **Reduce tariffs on Chinese imports to 2017 levels** (there are currently 25% tariffs on \$50 billion and 10% tariffs on another \$200 billion of Chinese imports and retaliatory tariffs of 10-25% tariffs on \$110 billion of U.S. imports, these tariffs hurt China more than it hurts the U.S. and should provide the U.S. with negotiation leverage)
2. **Give equal treatment to Chinese companies in national security review** (the Committee on Foreign Investment in the United States (CFIUS) foreign investment review process protects the U.S. military-industrial base from Chinese government-sponsored investments, it is an important bulwark to preserve the U.S. lead in advance dual-use technologies and to protect U.S. firms from being acquired by Chinese competitors)
3. **Refrain from restricting visas for Chinese students and professionals** (many Chinese study and work in the U.S., and some have been linked to espionage and political meddling, the U.S. needs to adopt a “whole of society” approach to this serious problem)
4. **Open government procurement to Chinese technology products and services** (the U.S. government is the largest customer in many sectors, this market should be reserved for American firms and not be opened to Chinese competitors)

Minor Concessions (-10-20 points points)

1. **Lift bans on high technology exports such as integrated circuits and aircraft to China** (these products are important to China’s economic development and lifting export bans would be profitable for U.S. producers of these products)

You have no position on the following issues (will not lose or gain individual points):

Asks

1. **China to refrain from military development of man-made islands in the South China Sea**, commit to not occupy other contested shoals, and agree to establish confidence building measures to lessen the risk of accidental military conflict (China’s militarization of outposts in the South China Sea that endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability)
2. **China to help identify and discourage Chinese firms that evade U.S. sanctions against Iran and North Korea** (companies such as Huawei and ZTE have violated American sanctions against Iran and North Korea, the U.S. has refrained from putting sanctions on these companies as a gesture of good will to China during trade talks but can revisit the option in future)

Concessions

1. **The U.S. can agree to take a more limited approach in defining its export control regime** regarding the export of dual-use technologies (the U.S. export control regime is under review at present and the U.S. can take steps to reassure China that it will not be abused to ban most or all high technology exports to China but limited to those that have important military applications)

2. **The U.S. to agree not to send warships or military personnel to Taiwan** or to conduct military exercises with Taiwan in return for Beijing not to undertake provocative military actions in the Taiwan Strait (the U.S. has a commitment to help Taiwan defend itself under the Taiwan Relations Act but recognizes that the future of Taiwan be peacefully decided by the peoples of both sides of the Strait, to this end the U.S. can commit not to take provocative military actions if China promises to do the same)
3. **The U.S. to recognize core Chinese national interests:** keeping national unity of mainland China and Tibet, Xinjiang, and Hong Kong is very important to Beijing but problematic for Washington from the perspective of human rights (this concession would likely include a pledge not support the Hong Kong protest and desist from blacklisting Chinese companies over Xinjiang human rights abuse allegation)

**Win Conditions:**

Agreement is considered reached when ALL members from BOTH country teams sign the **Joint-Statement** paper

*Individual Victory:* The individual who has the **best negotiation performance, most optimal individual demands and concessions** with regards to the **best individual points ratio** on the **Position Paper** will be declared winner as the individual negotiator. This can occur regardless of which team wins, and regardless of whether agreement is reached or not. (Moderator will take in consideration of each individual role)

*Team Victory:* The country team with the most National Points will be declared winner of the Simulation. This can only occur if agreement is reached.

*Impasse:* If no agreement is reached by the end of negotiation, both country teams will receive -20 National Points. Moderator will then determine which country team is ahead based on National Points negotiated at that time. Individual victory is still possible under impasse and preferable to making costly concessions to achieve team victory.