EVALUATING UNFAIR TRADE BETWEEN THE US AND CHINA
Important Policy Debate

Increasing attention on China
+ Obama: NEW Trade Enforcement Unit
+ Romney: Says he will immediately classify China a currency manipulator

What can, and how do, economists contribute to the debate?
RESEARCH QUESTIONS

 In what way is trade unfair?
 How certain are the claims?
 What is the economic value?
 Is it one-sided?
SUMMARY OF CONCLUSIONS

- Unfairness claims are specious.
- Unfairness claims are self-serving to special interests

Unfair trade:
- Economic value is low (trade remedies)
- Effects highly uncertain (currency)
- Two-sided (IPR and WTO disputes)

- Proposed responses could be very damaging
DEFINING UNFAIRNESS

1. Unequal competitive advantages
2. Theft
   ✗ UNFAIRNESS for whom?
   + National Comparisons (Us vs. Them)
   + Who Loses?
   + Who Benefits?
MAIN UNFAIRNESS CLAIMS

1. Currency Manipulation
2. Intellectual Property Right Infringements
3. Excessively Low-Priced Products – Dumping
4. Government subsidies
5. Violations of WTO Agreement
CHINA CURRENCY MANIPULATION

- Fixed Exchange Rate (1994–2005)
- Crawling Peg (since 2005)
- Historical Concern about Competitive Devaluations
- What is the “Correct” value for exchange rate?
How to Tell if RMB is Undervalued?
- Many Estimates...

Cline and Williamson (PIIE)
- Fundamental Equilibrium Exchange Rates (FEER)
- ER needed to bring CA balance to reasonable level: ~ 3% of GDP
### CHINA CURRENCY MANIPULATION

#### Cline and Williamson’s Estimates of China’s Currency Undervaluation

<table>
<thead>
<tr>
<th>Year</th>
<th>FEER (RMB/$)</th>
<th>Actual (RMB/$)</th>
<th>RMB Undervaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5.86</td>
<td>6.31</td>
<td>7.1%</td>
</tr>
<tr>
<td>2011</td>
<td>5.09</td>
<td>6.54</td>
<td>22.2%</td>
</tr>
<tr>
<td>2010</td>
<td>5.50</td>
<td>6.83</td>
<td>19.5%</td>
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<tr>
<td>2009</td>
<td>4.88</td>
<td>6.84</td>
<td>28.7%</td>
</tr>
<tr>
<td>2008</td>
<td>5.54</td>
<td>7.17</td>
<td>28.3%</td>
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</tbody>
</table>
CHINA CURRENT ACCOUNT PREDICTIONS

Out of line
China’s current-account surplus, % of GDP

- Actual
- IMF April forecasts

Source: IMF
CHINA CURRENCY MANIPULATION

- 2005 Cline-Williamson estimated RMB to be undervalued by 27.5%
- 2005 US legislation for 27.5% tariffs against China
CHINA CURRENCY (2005–2011)

Reality check
China’s yuan-dollar exchange rates
Q1 2005=100

Sources: The Economist; Bureau of Labour Statistics; CEIC; Thomson Reuters

*November 2nd
Fred Bergsten in 1982 on Japan,
- Appropriate ER is 180-200 ¥/$
- Not 260 ¥/$
- Need a 20-28% revaluation

Today’s ER (30 years later)
- 78 ¥/$
- 200% nominal revaluation
- US Trade deficits every year.
Application of CW Estimates

Economic Policy Institute says a 28.5% revaluation of RMB would:
- Create 1.6 million new US jobs

They say US-China trade deficits 2001-2010:
- Cost 2.8 million jobs to be lost or displaced
EPI Model is Incomplete and Misleading
- Uses a simple though sophisticated looking method

Does not estimate and report jobs created
- Inflow of loans from China offsets the CA deficit
- Loans mostly finance US government deficit
- EPI’s own estimate of deficit spending should be:
  - 5.5 – 11 million jobs created by 10 years of trade deficits with China
CURRENCY MANIPULATION CONCLUSIONS

- There is no correct or equilibrium ER
- Trade Imbalances are not market failures that require correction
- Economic impacts of currency changes are highly uncertain
- Economic impacts of proposed US legislation and Chinese retaliation would be quite large

+ NEXT IPR
CHINESE IPR INFRINGEMENTS

- Software Piracy
- Patent Infringements
- Music, Movies (streaming and DVD)
- Fake goods markets are prominent
CHINESE IPR INFRINGEMENTS

- USITC 2011 IPR Report
- IPR Losses
  + Info Services: $11.8 - $48.9 billion
  + High-Tech and Mfg.: $1.9 - $37 billion
  + Other Sectors: $0.9 - $4 billion
  + Total US Losses: $14.2 - $90.5 billion per year
### Initial IPR Legislations

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents</td>
<td>1790</td>
<td>1984</td>
</tr>
<tr>
<td>Copyrights</td>
<td>1790</td>
<td>1991</td>
</tr>
<tr>
<td>Trademarks</td>
<td>1870</td>
<td>1982</td>
</tr>
</tbody>
</table>
IPR INFRINGEMENT CONCLUSIONS

- Potentially very large economic impacts
- Measurement of effects are highly uncertain
- IPR law in infancy in China
  - Takes time for legal institutions to develop
- US sanctions seem unlikely to produce rapid results

- NEXT Trade Remedies
Between 2001-2011, 86 AD investigations against China were filed.

72% of the AD investigations indicated affirmative LTFV determinations.
<table>
<thead>
<tr>
<th>Filing Date</th>
<th>Product</th>
<th>Subject Imports (1,000's US$)</th>
<th>AD Duties*</th>
<th>Low</th>
<th>High</th>
<th>Countervailing Duties*</th>
<th>Low</th>
<th>High</th>
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</thead>
<tbody>
<tr>
<td>2002</td>
<td>Ball Bearings</td>
<td>$127,957</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2003</td>
<td>Color TV Receivers</td>
<td>$271,110</td>
<td>22.94%</td>
<td>5.22%</td>
<td>78.45%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2004</td>
<td>Frozen/Canned Shrimp</td>
<td>$295,300</td>
<td>55.23%</td>
<td>27.89%</td>
<td>112.81%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2004</td>
<td>Wooden Furniture</td>
<td>$957,948</td>
<td>8.64%</td>
<td>0.79%</td>
<td>198.08%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2006</td>
<td>Polyester Staple Fiber</td>
<td>$111,617</td>
<td>4.40%</td>
<td>3.47%</td>
<td>44.30%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>2006</td>
<td>Carbon and Alloy Steel Wire Rod</td>
<td>$340,877</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2007</td>
<td>Laminated Woven Sacks</td>
<td>$153,182</td>
<td>64.28%</td>
<td>64.28%</td>
<td>226.85%</td>
<td>223.74%</td>
<td>352.82%</td>
<td>N/A</td>
</tr>
<tr>
<td>2007</td>
<td>Off-the-Road Tires</td>
<td>$305,705</td>
<td>9.48%</td>
<td>4.08%</td>
<td>210.48%</td>
<td>5.62%</td>
<td>2.45%</td>
<td>14.00%</td>
</tr>
<tr>
<td>2007</td>
<td>Circular Welded Carbon-quality Steel Pipe</td>
<td>$419,960</td>
<td>69.20%</td>
<td>69.20%</td>
<td>85.55%</td>
<td>37.22%</td>
<td>29.57%</td>
<td>615.92%</td>
</tr>
<tr>
<td>2007</td>
<td>Steel Nails</td>
<td>$485,994</td>
<td>21.24%</td>
<td>0.00%</td>
<td>118.04%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2007</td>
<td>Coated Free Sheet Paper</td>
<td>$223,767</td>
<td>21.12%</td>
<td>21.12%</td>
<td>99.65%</td>
<td>7.40%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2008</td>
<td>Circular Welded Carbon-quality Steel Lined Pipe</td>
<td>$181,357</td>
<td>73.87%</td>
<td>73.87%</td>
<td>101.10%</td>
<td>35.67%</td>
<td>31.29%</td>
<td>40.05%</td>
</tr>
<tr>
<td>2008</td>
<td>Welded Stainless Steel Pressure Pipe</td>
<td>$154,833</td>
<td>10.53%</td>
<td>10.53%</td>
<td>55.21%</td>
<td>1.10%</td>
<td>1.10%</td>
<td>299.16%</td>
</tr>
<tr>
<td>2009</td>
<td>Seamless Refined Copper Pipe and Tube</td>
<td>$446,282</td>
<td>36.05%</td>
<td>11.25%</td>
<td>60.85%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2009</td>
<td>Seamless Steel Standard Line, and Pressure Pipe</td>
<td>$412,051</td>
<td>66.13%</td>
<td>50.01%</td>
<td>98.74%</td>
<td>35.17%</td>
<td>13.66%</td>
<td>56.67%</td>
</tr>
<tr>
<td>2009</td>
<td>Oil Country Tubular Goods</td>
<td>$2,805,206</td>
<td>32.07%</td>
<td>32.07%</td>
<td>99.14%</td>
<td>13.41%</td>
<td>10.49%</td>
<td>15.78%</td>
</tr>
<tr>
<td>2010</td>
<td>Aluminum Extrusions</td>
<td>$551,164</td>
<td>32.79%</td>
<td>32.79%</td>
<td>33.28%</td>
<td>374.15%</td>
<td>8.02%</td>
<td>374.15%</td>
</tr>
<tr>
<td>2011</td>
<td>Crystalline Silicon Photovoltaic Cells</td>
<td>$55,110</td>
<td>N/A</td>
<td>3.61%</td>
<td>2.90%</td>
<td>4.73%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Sub-total  $8,299,420
Other Investigations (68)  $1,812,281
Total  $10,111,701

* Median

Sources:
http://www.usitc.gov/trade_remedy/731_ad_701_cvd/investigations/completed/index.htm
EVIDENCE OF SIGNIFICANT MATERIAL INJURY?

- Estimated total value of subject imports determined LTFV by AD investigations between 2001 and 2011 was 9.2 billion
- Total Imports from China (2001-2011) = 2.82 Trillion
- Only 0.03% of total merchandise from China has been determined sold at LTFV in the U.S.
## Stock of All Imports subject to TTBs, 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Count of HS-06 Products Subject to TTB</th>
<th>Import Share, By Count</th>
<th>Import Share, by Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>256</td>
<td>4.72</td>
<td>2.33</td>
</tr>
<tr>
<td>China</td>
<td>46</td>
<td>0.87</td>
<td>1.71</td>
</tr>
</tbody>
</table>

Source: Bown, Chad (World Economy, 2011).

- US Totals Overall
  - Complainant – 98 cases
  - Respondent – 113 cases
  - 3rd Party – 87 cases

- China Totals Overall
  - Complainant – 8 cases
  - Respondent – 23 cases
  - 3rd Party – 79 cases
CONCLUSIONS

- Measures of unfairness are specious
- Unfairness applications are restricted in scope
- Economic value of much unfair trade is low
- Where the economic value is reputedly high, degree of uncertainty is also high
- Unfairness is not one-sided – The US is also regularly determined to be acting unfairly
EXAMPLES OF UNEQUAL US ADVANTAGES

- Transparent business practices (governance)
- Easier Legal Remedies (contract enforcement)
- Well-trained and flexible workforce (high productivity)
- High innovation capacity
- Reliable transport and telecom infrastructure
- Experience in service provision
- Etc. etc. ....
EXAMPLES OF US INEQUITIES

- US QE I, QE II, and QE III is reducing US dollar value ... currency manipulation?
- US is the largest software infringer
- US subsidizes select industries (e.g. autos)
- US firms are regularly charged with dumping
- US has lost numerous WTO cases
CONCLUSIONS

- Charges of Unfairness are mostly a rhetorical device to convince Americans to support policies that benefit select special interests.