Normalizing Trade Relations With China Was the Right Thing To Do

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U.S. Trade Representative Robert Lighthizer has long claimed that Congress made a major mistake when it granted China "permanent normal trade relations" (PNTR) status. Testifying before the House Ways and Means Committee last month, Lighthizer praised Speaker Nancy Pelosi for being "a leader on this issue," noting that "as long ago as 2000, she wisely warned about the dangers" of such a move. No member of the committee pushed back to defend the decision—not even Chair Richard Neal (D–Mass.) or ranking member Kevin Brady (R–Texas), both of whom voted for PNTR back in 2000.

But Neal, Brady, and a bipartisan majority of Congress were right back then. Lighthizer is exaggerating the costs of PNTR, minimizing its benefits, and claiming it failed to deliver on expectations it in fact was never intended to fulfill.

Congress passed PNTR to smooth China's entry into the World Trade Organization (WTO), but the country probably would have joined the WTO either way. And Congress would likely have continued renewing normal trade relations with China each year, as it had since 1980, granting it the same access to the U.S. market as almost all our other trading partners. The key difference would have been that the United States would not have benefited from the Protocol of Accession that China had signed, in which it made significant commitments to reduce tariffs and to further open its economy to imports and investment. Other WTO members would have gained that additional market access, while U.S. producers would have faced higher, discriminatory barriers.

Rejecting PNTR would also have meant that the U.S. could not use the WTO dispute settlement mechanism to challenge Chinese trade practices. A recent analysis by the Cato Institute documents 22 cases brought by the United States against China since it joined the WTO in 2001. "In all 22 completed cases, with one exception where a complaint was not pursued, China's response was to take some action to move toward greater market access," Cato concluded, adding that "there are no cases where China simply ignored rulings against it."

By approving PNTR, the U.S. Congress opened the door for U.S. producers to dramatically expand the value of American-branded goods and services sold in China. Under China's accession agreement, its average duty applied to products the U.S. exports to China has dropped from 25 percent before its entry to 7 percent. It has also liberalized its rules on services trade and foreign direct investment.

As a result, U.S. exports of goods and services to China have grown exponentially, according to Commerce Department figures. From 2001 through 2017, before the Trump administration launched its current trade war against China, annual U.S. exports grew from $24.5 billion to $187.5 billion, an almost eightfold increase. Sales by U.S. majority-owned affiliates in China soared more than tenfold from 2001 to 2016, from $32.6 billion to $345.3 billion; profits from those operations grew more than fourteenfold, from $1.8 billion to $26.0 billion. Between exports and affiliate sales, U.S. companies now sell half a trillion dollars of goods and services a year in China.

To show the supposed failure of past trade policy, Lighthizer held up a chart at the Ways and Means hearing showing that the U.S. bilateral goods deficit with China has grown since 2001. But almost all economists agree that bilateral deficits are virtually meaningless; they certainly are not a scorecard on the benefits of a trade relationship. At any rate, a major reason why our deficit with China has grown is that goods we used to import directly from other East Asian nations, such as Japan, South Korea, and Taiwan, are now routed through China for final assembly before being shipped to the United States. If we take into account only the value added in China, the bilateral deficit shrinks by more than one third.

When Lighthizer flashed his graph, he should have been asked why the deficit with China has kept climbing under the Trump administration's new get-tough policy. The merchandise trade deficit with China in 2018 was a record $419 billion, a full 20 percent higher than the 2016 deficit before the administration came into office. Far from "fixing" the deficit with China, the administration's policies have been accompanied by a rise in imports from China and a fall in U.S. exports.

The administration is not responsible for the growing deficit, but the fact that it has grown despite the duties levied on $250 billion of imports from China buttresses the argument that deficits are the result of underlying macroeconomic forces and are not easily changed by adjusting tariffs.

Lighthizer raised another familiar piece of evidence when he invoked the loss of manufacturing jobs. "In 2000, the year before China joined the WTO, there were 17.3 million manufacturing jobs in the United States," he told the committee. "By 2016, 5 million of those jobs were lost." He acknowledged that not all those jobs were lost because of China, but he left open just how many.

The truth is that more than 80 percent of those jobs disappeared not because of trade with China, or trade with any country, but because of automation and productivity gains. Even the much-cited "China Shock" study by economists David Autor, David Dorn, and Gordon Hanson estimated that China trade was responsible for just under 1 million net manufacturing jobs lost during that period.

Many of those jobs probably would have been lost anyway, regardless of whether China got PNTR status or joined the WTO, thanks to expiring global quotas on the textile and apparel trade and to China's ongoing growth as an export platform. And the direct connection between imports and manufacturing jobs is shaky. In the past two years, a thriving U.S. manufacturing sector has actually added a net 458,000 jobs, all while imports from China and the rest of the world continued to rise.

The fact that China has failed to evolve into a free-market democracy since 2000 is not a failure of trade liberalization or the WTO. The WTO was not created to transform the political and economic systems of its members. It was created to advance the more modest goals of establishing and enforcing basic rules for global trade while facilitating agreements to reduce trade barriers worldwide. And it has done that. Far from being a mistake, that 2000 vote brought China under the discipline of more WTO rules and further opened the growing Chinese market to U.S. goods and services. Far from being a mistake, the vote in 2000 on China PNTR was one of the finer moments of bipartisan postwar trade policy.