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Time to Negotiate on Trade With China

Simon Lester and Huan Zhu

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President Donald Trump and President Xi Jinping will be at Mar-a-Lago in Florida later this week, the first face-to-face meeting between the two leaders. Tensions between China and the United States have been high, in part because Trump's economic nationalist rhetoric has raised concerns about potential new tariffs and trade conflict escalating.

To avoid the harm to businesses and consumers that would inevitably result from a trade war, the two leaders should consider a more productive and less confrontational approach to trade relations: a formal negotiation of a comprehensive free trade agreement.

One may ask: Is it really possible for the United States and China to negotiate solutions to all of their outstanding economic issues? Each side will come forward with a long list of concerns, and the task may seem overwhelming. On the U.S. side, there have been complaints about, among other things, China's high tariffs and non-tariff barriers; and its alleged currency manipulation, intellectual property theft and cyberhacking of U.S. business secrets. At the same time, the Chinese complain about unfair treatment in the review of their investment in the United States, and being considered a "non-market economy" in anti-dumping cases.

Some of the issues are long-standing ones, and there have been previous attempts to address them in high-level dialogues between the two countries, in particular the U.S.-China Joint Commission on Commerce and Trade, and the Strategic and Economic Dialogue. However, this approach has not led to many concrete improvements.

It is time to try a different approach. A trade agreement negotiation would give the two sides a chance to seriously discuss these issues, and make the resulting agreement enforceable.

The negotiations can start with the basic issue of access for U.S. products to the Chinese market. Trump has complained that, "we're being hurt very badly by China … with [China] taxing us heavy at the borders when we don't tax them." To a degree, he is right about this. Currently, China's average tariff is 9.7 percent, while the average U.S. tariff is 4 percent. The main reason is that when China was negotiating over tariffs as part of its World Trade Organization accession process in the 1990s, it was much poorer, and as a developing country received special treatment. However, its growing economic wealth suggests it should now be able to lower its tariffs further.

A U.S.-China trade negotiation could help get Chinese tariffs much lower than their current levels. For example, U.S. automakers have criticized China for its 25 percent tariff on car imports. A trade negotiation could provide the framework for lowering this and other tariffs.

Beyond tariffs, negotiations could also help with regulatory trade barriers. For example, some Chinese restrictions on agricultural imports do not have a scientific basis, and removing these restrictions would increase opportunities for American producers. Negotiations could also lead to enforceable rules governing the behavior of state-owned enterprises and stronger protections for intellectual property.

We need to be realistic, of course. Negotiations will be difficult and may not solve all the problems. Both sides will have sensitive areas where reform will be difficult, and there is uncertainty about how committed they will be.

In recent months, China has been saying the right things on trade, as its leaders talk about the benefits of globalization and openness. But it is not clear if they really mean it or if this is just rhetoric. Some of the trade liberalization called for by the United States, such as a reform of state owned enterprises, will be a challenge for China to accept and implement in the short term.

On the U.S. side, the position of the Trump administration on China is unclear. There are certainly some hard-liners in the administration, such as Peter Navarro, the director of the National Trade Council, who have deep concerns and fears about China, and may be unwilling to make any compromises. At the same time, there are moderates like Gary Cohn, director of the National Economic Council, who would like to see more constructive engagement on trade. It remains to be seen how this internal battle will play out and which approach to trade policy will prevail.

For those who are skeptical that a U.S.-China trade agreement is really possible, keep in mind that Australia and New Zealand have both negotiated trade agreements with China in recent years. New Zealand's agreement concluded in 2008, giving New Zealand duty free access for 96 percent of the categories of goods it exports to China. Australia's agreement came into force in 2015, eliminating or reducing Chinese tariffs on a wide range of agricultural products of interest to Australian farmers. Closer to home, Canada completed an investment agreement with China in 2014 and recently announced that it will explore a possible trade agreement as well.

After years of growing tensions over trade policy, it is time for the United States and China to dispense with unilateral threats, high-level dialogues and frequent litigation and make a serious attempt to resolve some long-standing problems. To this end, they should begin negotiations on a comprehensive free-trade agreement. With a positive meeting this week at Mar-a-Lago, Trump and Xi can lay the foundation for these talks.

Simon Lester is a trade policy analyst at the Cato Institute. Huan Zhu is a research associate at the Cato Institute.