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Will Mnuchin talk about free trade in Beijing?

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When US Treasury Secretary Steven Mnuchin leads a senior delegation to China this week, the expectation is that it will help ease the rapidly growing bilateral tensions on the trade and investment front.

There will be a long list of issues for both sides to address and it won't be realistic to expect the problems to be solved overnight.

However, the trip could become more meaningful if it starts negotiations for a bilateral free trade agreement (FTA) or just resumes the talks on the Bilateral Investment Treaty (BIT) that had made good headway under the Obama administration.

Simon Lester and Huan Zhu, two trade experts at the Washington-based Cato Institute, argue that the US needs to engage with China in a more positive way if it wants to promote trade and investment liberalization.

"In particular, the United States should initiate formal negotiations on a trade agreement with China," they wrote in an article posted on Cato's website on April 4.

Acknowledging the daunting task of such negotiations, they highlighted the fact that Australia and New Zealand both have inked FTAs with China.

In addition, Canada completed an investment deal with China that took effect in 2014 and has announced the intention to explore talks for a trade deal.

"It will just take creativity, resolve, and the willingness of both sides to compromise," they wrote about a possible US-China FTA.

That includes the US' willingness to address China's demands, such as its status as a market economy, and a fair treatment of Chinese investment in the US, in particular scrutiny by the Committee on Foreign Investment in the United States (CFIUS), which has been increasingly discriminating against China.

Like China's accession to the World Trade Organization in 2001, a China-US FTA would also help China speed up domestic economic reforms and opening up.

President Xi Jinping announced several measures of further opening up the economy in his speech at the Boao Forum for Asia early this month, such as lowering tariffs, strengthening intellectual property rights protection, and loosening restrictions on foreign investment in China.

China's FTAs already cover more than 20 countries. On Saturday, Ma Zhanwu, China's consul general in Kokata, India, called for an FTA that would help remove trade barriers and facilitate trade, investment and other exchanges between the two highly populous neighbors.

Many have called for a US-China FTA in the past years. In January 2012, Maurice Greenberg, former chairman and CEO of American International Group (AIG), wrote an op-ed for the Wall Street Journal titled "Time for a China-US Free Trade Agreement" where he argued that such a pact would benefit the rapidly expanding bilateral trade and investment relationship.

Greenberg, whom I interviewed in Shanghai in the early 1990s when AIG tried to become the first foreign insurance company to open a branch in China since 1949, has a great understanding of China. That probably has to do with the fact that AIG was founded in Shanghai in 1919 by C.V. Starr, a businessman and ironically also a US government spy.

Greenberg and Fred Bergsten, who was the founding director of the Peterson Institute for International Economics, penned another op-ed for the WSJ in December 2014 arguing that the US needed an FTA with China.

In the article, they expressed concerns that the two countries seem to be moving apart in important areas of trade, investment and regional security. "Both countries need to refocus on ways to strengthen mutual ties and work to resolve the issues that divide them," they said.

Two months before the article, a study by Bergsten and several of his colleagues provided strong evidence of the mutual benefits of a US-China FTA.

US exports would increase by almost \$400 billion a year, and US national income would grow more than \$100 billion annually. There would be 1.7 million export-related jobs added to the US economy over 10 years, and American consumers meanwhile would benefit from lower prices and wider product choices, according to the study "Bridging the Pacific".

On the other hand, China's national income would increase by more than \$300 billion a year, helped by a dramatic boost in FDI between the two countries.

"The relationship between China and the United States is unarguably the most important in the world today. To ensure that it remains so, the United States needs to act now to secure a free trade pact between the two countries," wrote Greenberg and Bergsten.