

U.S. TRADE POLICY TOWARD CHINA: DISCRIMINATION AND ITS IMPLICATIONS

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Abstract

The bilateral relationship with China has become a major focus of U.S. trade policy. This paper examines recent U.S. policy toward imports from China, highlighting important explicitly and implicitly discriminatory elements. Discriminatory restrictions on U.S. trade with China protect competing domestic industries as well as non-Chinese foreign suppliers with an established presence in the U.S. market. Unlike discriminatory U.S. treatment of Japan in the 1980s, in which “gray-area” measures like voluntary export restraints were prominent, most U.S. actions toward China are fully consistent with current WTO rules, including the special terms of China’s 2001 WTO accession. However, as with earlier discriminatory actions directed primarily at Japan, U.S. trade policy toward China is likely to have complex effects on global trade flows and may produce outcomes far different from those intended.

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All remaining errors are our own.

1. Introduction

In a surprisingly short time, the bilateral relationship with China has come to dominate American public and official views on globalization. The list of American grievances is familiar: a burgeoning bilateral trade deficit, currency misalignment, accumulation of U.S. financial assets, and various “unfair” trade practices. These were also staples of the U.S. demonization of Japan in the 1980s, before the seemingly invincible “Japan Incorporated” began to falter. Now China has replaced Japan as the country with the largest bilateral trade surplus with the United States, and also as the main (though by no means only) object of American dissatisfaction with its trading partners. Just as U.S. bilateral relations with Japan were characterized by a wide range of discriminatory policy initiatives, China is now the object of unprecedented discriminatory treatment in its bilateral relationship with the United States and also as a less-than-equal member of the World Trade Organization since its accession in 2001.

This paper explores several dimensions of U.S. trade policy toward China. Section 2 examines the historical context of U.S. discriminatory trade practices, both as permitted under GATT/WTO rules and through bilateral measures taken outside this framework. Section 3 takes a closer look at specific U.S. policy actions toward China: antidumping, WTO accession, and free-trade areas negotiated with China’s competitors. Section 4 compares recent U.S. treatment of China with other major instances of U.S. trade policy discrimination, particularly toward Japan. Section 5 considers the economic implications of the discriminatory trade policy actions, including their impact on other trading partners. Section 6 concludes.

2. U.S. Trade Policy Discrimination in Historical Perspective

The United States has played a paradoxical role in the development of the post-World War II trading system, championing the principle of nondiscrimination in world trade yet opting for a range of discriminatory policies in its own trade regime. While promoting the most-favored-nation (MFN) principle in the General Agreement on Tariffs and Trade (GATT), U.S. trade officials also pioneered the use of bilateral trade measures, including voluntary export restraints (VERs) and orderly marketing agreements (OMAs), to protect important domestic industries adversely affected by rapidly growing imports.

These explicitly discriminatory measures, first applied to Japan and later to other newer exporters—mostly in East Asia—to U.S. markets, clearly violated the GATT’s MFN principle. Moreover, U.S. officials chose these measures over the non-discriminatory safeguard action permitted under Article XIX of the GATT. Trade discrimination was also fostered through negotiated voluntary import expansions (VIEs) with Japan and other trading partners. Although U.S. trade officials are no longer negotiating targets for Japanese imports, quantitative trade commitments are not entirely a thing of the past—the USTR website reports a December 2004 agreement with Korea that will guarantee a minimum volume of Korean rice exports from the United States over a ten-year period.¹

U.S. trade policy discrimination against Japan actually began even before World War II with the negotiation in the 1930s of “voluntary” restrictions on Japanese exports to the United States of several types of cotton textiles (Metzger 1971, 170-1). Although the imports from

¹ In the Uruguay Round, Korea designated rice as a sensitive product. This allowed Korea to postpone liberalizing its restrictions on rice imports and instead commit to importing a specified quantity of rice annually through 2004. The exceptional treatment could be continued for some additional period after 2004, but Korea was required to give individual WTO Members the opportunity to negotiate concessions, i.e., specified shares in total Korean imports. In 2004 Korea held such negotiations with the United States and eight other WTO members (USTR 2005). This market-sharing arrangement appears to exclude Vietnam, an internationally competitive rice exporter but not yet a WTO member, from Korea’s rice market.

Japan were small relative to the U.S. market, they were nonetheless deemed a threat because of rapidly rising volumes concentrated in a few product categories. As with later VERs, these voluntary agreements were stimulated by U.S. threats of unilateral action. But in the early postwar period, with its economy in tatters, Japan hardly appeared to pose a competitive threat to U.S. industries. The United States assisted in the reconstruction Japan's textile industry and also championed Japan's entry into the GATT in 1955. However, other GATT members had strong reservations, mainly on account of Japan's much lower wages. Fourteen countries accounting for 40 percent of GATT trade therefore exercised their privilege under Article XXXV to refuse to extend MFN treatment to Japan (Dam 1970, 347-8). Although the United States was not among the GATT members who denied Japan MFN treatment, the grudging acceptance into the GATT of Japan, a too-competitive rival in manufactured goods, foreshadowed the harsh conditions of China's WTO accession half a century later. By 1956, bilateral negotiations leading to the postwar VERs on Japanese textile exports to the United States had already begun; Canada, the United Kingdom, and the European Economic Community likewise negotiated arrangements intended to discourage "market disruption" due to imports from Japan (Metzger 1971, 174-5).

Of course, discriminatory trade measures, whether export-restricting or import-increasing, have important external effects on other sectors and countries. What began as Japan's voluntary limits on cotton textile exports to the United States and other importing countries eventually culminated in the global Multifibre Arrangement, as unrestricted products and later unrestricted exporting countries filled the import gap.² The quantitative form of

² Supporters of the GATT-sanctioned Long Term Arrangement in Cotton Textiles included pragmatic non-protectionists who believed that a gradual and "orderly" increase in the market share of new suppliers among the less-developed countries would likely be beneficial *to those suppliers*; the argument was that uncontrolled large

Japan's VERs also promoted product upgrading and may thus have accelerated Japan's transition to more sophisticated manufacturing exports. We discuss these and other externalities associated with discriminatory protection in greater detail in Section 5.

Discrimination against Japan and later China has also been implicit in U.S. application of GATT-consistent laws on unfair trade such as antidumping, as we document in Sections 3 and 4. Elastic criteria have made the dumping laws the most popular policy instrument for U.S. industries seeking protection from competing imports, especially imports from transition economies categorized as non-market economies. In recent years, China has become a major target for antidumping action by the United States and worldwide, accounting for nearly a fifth of all cases in 2002 (Messerlin 2004, Table 3). Because dumping margins for China are calculated on a different basis than for most other countries and resulting antidumping duties are usually much larger, this statistic may understate the impact of antidumping action on China's exports to the United States.

Other types of GATT-sanctioned practices offer preferred market access to some countries. The original GATT agreement "grandfathered" preferential arrangements already in place, most notably British imperial preferences favoring Commonwealth countries (Dam 1970, 14). In response to pressure from potential beneficiaries and the United Nations Conference on Trade and Development (UNCTAD), a GATT waiver in 1971 initiated the Generalized System of Preferences (GSP). Under the GSP, manufactured exports from less-developed countries (LDCs) gained limited preferential access to the markets of the industrialized nations (Pearson 2004, 105). The United States initially opposed the GSP, partly on grounds that it weakened the MFN principle but also from a more practical concern that cheap imports from LDCs would

increases concentrated in a few products were likely to trigger new trade restrictions in the major importing nations (Dam 1970, 300-1).

flood U.S. markets. The U.S. version of the system, finally implemented in 1976, excluded “sensitive” sectors, notably textiles and apparel but also footwear and steel, where competition from LDC exporters was already biting into domestic sales.³

Perhaps most important for today’s trade environment is the worldwide proliferation of preferential, i.e., discriminatory, trade agreements. Beginning in the mid-1980s, the United States has aggressively promoted “free trade” agreements (FTAs) with a variety of partners, mostly but not exclusively in the western hemisphere.⁴ Although this drive for preferential liberalization arose initially from U.S. frustration with the slow pace of multilateral efforts in the GATT, efforts continued unabated during and even after the Uruguay Round of multilateral negotiations. Such trade agreements were authorized under GATT Article XXIV, originally intended to facilitate economic union in Europe but which has emerged as the major loophole in the MFN principle in the World Trade Organization.⁵ As of 2002, 250 agreements authorized under Article XXIV had been notified to the GATT or WTO. Of these 170 remain in force; the WTO estimates that an additional 70 are operational but have not yet been notified.⁶ The United States alone has negotiated about a dozen FTAs in addition to NAFTA and also participates in a wide variety of looser agreements with specific trading partners (USTR web site).

³ The European Community system, implemented in 1971, did include sensitive products but limited the size of covered imports.

⁴ The Office of the U.S. Trade Representative uses FTA in referring to its bilateral agreements—no doubt adding to public confusion. Elsewhere such agreements are also called preferential trade agreements (PTAs) or—in WTO documents—regional trade agreements (RTAs). The latter terminology seems especially bizarre given such examples as the bilateral U.S. agreements with Israel, Singapore, and most recently Australia. So far no one has opted for a most accurate label: discriminatory trade agreement (DTA).

⁵ The GATT was drawn up prior to pioneering work by Viner (1950) clarifying that such arrangements were not necessarily beneficial in strictly economic terms even for the participants themselves. For those drafting the GATT articles, regional trade liberalization was seen “as a step toward free trade, partial to be sure but laudable nonetheless” (Dam 1970, 274).

⁶ See WTO website www.wto.org/english/tratop_e/region_e/region_e.htm, accessed 14 January 2005.

Any country excluded from preferential access is at an obvious disadvantage. Indeed, preferential agreements have become so important a determinant of export success in major markets that mere “MFN treatment” might now be more accurately described as *least-favored-nation* status. U.S. trading partners including ASEAN members are contemplating FTAs with the United States less to expand market access than to retain their current access (Naya and Plummer, 2005).⁷ Some view to pressure on excluded countries to negotiated their own FTAs as giving rise to a desirable “competitive liberalization” process, while others are less optimistic, noting the complex and trade-distorting rules of origin such agreements typically entail as well as the possible inhibiting effect on future multilateral liberalization (Limão 2003). Srinivasan (2004) in fact suggests that China and India, each excluded from most of the important FTAs, should propose repealing GATT Article XXIV and replacing this giant loophole with rules that convert any preferential liberalization among WTO members to MFN liberalization within a stipulated period, such as five years. But since its WTO accession China has lost no time in negotiating its own FTAs with trading partners in the Pacific region (Antkiewicz and Whalley 2004). Talks are even underway with India, among others.

3. U.S. Trade Policy toward China: Implicit and Explicit Discrimination

In this section of the paper we present data on specific U.S. trade policies that discriminate against China. We split our discussion into two parts. Sections 3.1 and 3.2 focus on *explicitly* discriminatory trade policy, where the result of the U.S. trade policy is to *raise* barriers against Chinese exporters, thus allowing exporters from other countries preferential access to the

⁷ Singapore has already concluded an FTA with the United States. Despite the name, “modern” FTAs address many non-border issues and thus facilitate foreign direct investment as well as trade (Naya and Plummer, 2005). Most U.S. agreements include provisions on enhanced intellectual property protection, labor standards, and environmental protection.

U.S. market. Section 3.3 focuses on *implicitly* discriminatory trade policy, which *lowers* U.S. barriers facing non-Chinese exporters to the detriment of their Chinese competitors.

3.1 U.S. use of antidumping against China

Over the last 25 years, the administered protection of antidumping has been the most attractive trade policy instrument for domestic industries seeking insulation from foreign competition. The aggressive use of antidumping was “pioneered” by the United States but increasingly emulated by many other developed and developing countries.⁸ From the perspective of the issues raised in this paper, antidumping is an interesting policy to examine because of the discretionary way it is applied. This discretion, when combined with the political-economy features of administered protection, mean that antidumping *can* be a highly discriminatory trade policy action, yet it also has also has the potential to be imposed on a relatively nondiscriminatory basis as well. With this perspective in mind, we examine some of the stylized facts on U.S. use of antidumping against Chinese exporters.

Table 1 provides a breakdown of U.S. antidumping activity against its ten most frequently targeted trading partners for two separate periods: 1980-1989 and 1990-2003. Not surprisingly, in the more recent period Chinese exporters i) are the most frequently investigated producers, being named in 91 different antidumping investigations, ii) face a higher likelihood (67 percent) of having investigations result in duties than other producers, which together leads them to iii) face more antidumping duty actions (61) than producers from any other country, where they finally iv) face the highest level of duties imposed (an average ad valorem rate of

⁸ Zanardi (2004) presents data indicating that U.S. exporters have also become the target of antidumping as its use has spread beyond the “traditional” users—United States, Canada, EU, Australia. In particular, U.S. exporters are now the third most targeted exporters hit by foreign antidumping actions, trailing only China and Korea. In addition to the traditional users, Brazil, Argentina, and Mexico started their intensive use in the 1980s, followed more recently by South Africa and India.

127.02 percent) of all targeted countries—more than twice as high as the average facing all other countries.⁹ These facts suggest that China is “public enemy number one” in the U.S. antidumping process, even though at the midpoint of the 1990-2003 period China was still only the *eighth* largest U.S. trading partner—the source of just 3.5 percent of total U.S. imports in 1996.¹⁰

Another important finding is the high count and unusually high frequency with which China has been the *only* country named in a particular U.S. antidumping investigation. Over the 1990-2003 period, China was the only country targeted in 45 percent of the cases in which it was under investigation.¹¹ Most U.S. antidumping investigations in recent years have investigated unfairly traded products from *multiple* foreign countries simultaneously, a trend that has increased since the mid-1980s when a change in the U.S. antidumping law and investigative process allowed the injury determination to be based on “cumulated” imports from all countries named in an antidumping investigation.¹² Using cumulated imports from more countries increases the likelihood of an affirmative injury determination. *Ceteris paribus*, this change should bias the decision of a U.S. petitioning industry toward naming *more* foreign countries in

⁹ The U.S. Department of Commerce is able to use more discretion in calculating Chinese firms’ dumping margin in investigations because China is classified as a non-market economy. For non-market economies, the U.S. Department of Commerce estimates firm costs using data from a market economy that is judged comparable—for China, this surrogate is typically India. Chinese firms may also be less responsive to administrative requests for information during an investigation, resulting in Commerce also relying on the “Best Information Available” (usually data provided by the petitioners) to calculate a dumping margin. For a discussion of the effect of these factors on the dumping determination in the United States, see Blonigen (2003).

¹⁰ As we suggest above, the relevant characteristic of Chinese exports to the United States is rapid growth. Historically U.S. protection has discriminated against new and rapidly growing competitors, most notably Japan but also the “newly industrializing” economies of Asia. By 2003, China’s share in U.S. merchandise imports had risen to 9.4%, and China was the third largest source of U.S. imports, after Canada and Mexico but ahead of Japan.

¹¹ The only country with a rate comparable to Chinese exporters is Canada, and this is also likely due to some of the peculiarities of bilateral trade between the U.S. and Canada, largely due to CUSFTA and NAFTA.

¹² For a discussion of the cumulation rule and its economic effects on the U.S. antidumping process, see Hansen and Prusa (1996).

an antidumping investigation, possibly including some for which there is no evidence of dumping, so as to use the cumulated imports from all named countries to increase the likelihood of an affirmative injury determination. Thus, the frequency with which China *alone* is named suggests that there may be something distinctive about imports from China, when compared to U.S. imports from other trading partners.

Given that so many AD cases involving China seem “different” from cases involving other countries, the distinctive features of these cases could perhaps also provide a reason for the higher duties that its firms typically face. To examine this potential explanation, in Table 2 we provide summary data on the characteristics of the antidumping investigations that involved China as one of multiple countries being investigated for alleged dumping of the same set of products in the U.S. market. By examining the outcome facing Chinese firms relative to the outcome facing other investigated foreign firms in these multi-country cases, we are able to control for differences in industry characteristics across cases that may also generate differences in the level of AD duty imposed across countries. The data for the 1990-2003 period show that the average duty that Chinese firms faced after an affirmative determination was over 80 percentage points higher than the average duty facing all of the other firms from other countries in the multi-country investigations. In the table, we refer to this differential as the “China premium.”

Returning to Table 1, it is also informative to compare the U.S. antidumping policy facing China over the 1990-2003 period with the U.S. antidumping situation facing Japan over the 1980-1989 period, during the height of “Japan-bashing.” Similar to the recent circumstances facing China, in the 1980s Japan was the most targeted exporter in U.S. antidumping actions, targeted nearly twice as often West Germany, the next most frequently targeted exporting

country. And not only were Japanese exporters more frequently investigated than other exporters, but they also were more likely to face affirmative decisions and thus to have investigations result in antidumping duties (63 percent, compared to the average of 39 percent for other exporters).

However, Table 1 also reveals a notable difference between Japan in the 1980s and China in 1990-2003: Japan was a far more important trading partner in the 1980s than China in the 1990s. Looking at the midpoint of each period, Japan accounted for 20.1 percent of total U.S. imports in 1985, compared with China's share of just 3.5 percent in 1996. As a more important trading partner with faster-growing exports (see Table 7), we might have expected Japan in the 1980s to have been an even more potent source of trade frictions and potential antidumping investigations than China in the 1990s. Other things equal, China in the 1990s should have been *less* frequently targeted by U.S. antidumping, compared to Japan in the 1980s.

There are a number of potential explanations for the phenomenon of differential treatment toward China in the antidumping process. One possibility is that Chinese exports are disproportionately concentrated in politically sensitive and/or politically organized sectors in the United States, thus making China more likely to be subject to U.S. antidumping investigations due to the sectoral composition of its exports. However, given the proclivity toward antidumping activity in the steel sector, which alone accounts for nearly 40% of all antidumping cases, when combined with Japan's (net exporter) and China's (net importer) global trading position in steel, the sectoral explanation seems highly improbable. Rather, the U.S. antidumping focus on China *despite* its relatively small import share and the sectoral composition of its exports may reflect the greater perceived *threat* that China posed in the 1990s.

As with Japan in the 1980s, China's rapid export growth was a threat not only to U.S. import-competing industries, but also to suppliers in other countries with an established presence in the U.S. market and thus a concern about losing market share to Chinese competitors. A rational response for these exporters is to use the U.S. trade policy process (in this case, antidumping) to attain preferential access to the U.S. market if they can no longer compete with Chinese firms under conditions of MFN. In the case of antidumping, the preferential access can be attained either by ensuring that Chinese firms face U.S. antidumping duties that other foreign suppliers do not, or that Chinese firms face much *higher* antidumping duties than the ones imposed on other foreign suppliers in multi-country cases. Prusa (1997, 2001) and Bown (2004) provide empirical evidence that U.S. trade policy has had the effect of protecting not only domestic producers but also non-targeted foreign suppliers. Prusa and Bown establish that discriminatory application of antidumping duties in the United States has led to substantial *trade diversion*, i.e., increases in U.S. imports in targeted product categories from *non-targeted* foreign suppliers—who thus gained from the U.S. trade policy along with domestic producers. These gains have come at the expense of exporters first in Japan and later in China who face higher U.S. AD duties than other foreign suppliers.

A second major difference documented in Table 1 between U.S. antidumping versus Japan in the 1980s and versus China in the 1990s is that, while duties facing Japan in the 1980s were also higher than the average facing firms in other countries, the duties facing China in the 1990s were more than twice as high as the average duty facing all other exporters.¹³ This is true even after taking into account the upward trend in duties levied in affirmative cases.

¹³ Blonigen (2003) attributes the upward trend in duties levied in affirmative cases largely to the increased discretion available to the U.S. Commerce Department in dumping determinations.

3.2 China's WTO accession and China-specific "safeguard" laws

A second area of trade policy where China currently faces discriminatory treatment stems from its 2001 WTO accession. The terms of the accession agreement give WTO members the authority to enact "China safeguards" in the case of surges of imports of products from China. In the GATT/WTO system, safeguards have traditionally been distinct from the "unfair" trade laws such as antidumping in that users of safeguards do not need to establish that the foreign country or exporting firms have done anything unfair (such as "dump"). All that is necessary is for the domestic industry to show that it has been injured or that there is a reasonable threat of injury, and that this injury is associated with an increase in imports.¹⁴ However, at least in principle, safeguard protection is applied to *all* sources of imports, in keeping with its use when injury to the domestic industry is not due to any unfair act of specific foreign suppliers. Yet there are at least two new safeguards facing China alone. The first, authorized by Section 421 of the U.S. trade law, is applicable to all imported products from China. It is administered in much the same way as the standard, WTO-authorized safeguard law of Section 201. Under either law, the U.S. International Trade Commission (ITC) is charged with investigating injury, and in the case of an affirmative finding, making a remedy recommendation, which the U.S. President has the discretion to modify, accept, or reject. The second new safeguard facing imports from China, which is administered by the Office of Textiles and Apparel (OTEXA) in the U.S. Department of Commerce, is applicable to all U.S. imports of textile and apparel products from China.

¹⁴ There are other notable differences between antidumping and safeguards use. In addition to issue of "fair" versus "unfair" trade, the antidumping process is bureaucratic while safeguards in the United States allow for Presidential discretion; the injury threshold is higher for safeguard cases; the duration of an imposed safeguard measure is explicitly limited and typically shorter than antidumping; and the use of safeguards can also sometimes require compensation to affected countries, while antidumping does not. See Bown (2002).

3.2.1 Section 421 China safeguard

The primary way in which the new Section 421 “China safeguard” differs from traditional use of safeguards is the discriminatory nature of the policy. The WTO Agreement on Safeguards requires that U.S. trade restrictions authorized under the standard safeguards law (Section 201) must be applied on a most-favored-nation (MFN) basis, so as not to discriminate among foreign suppliers. The new China safeguards, which are discriminatory both in their consideration and in the potential application of U.S. trade restrictions against exporters from one country only, are thus entirely antithetical to the MFN treatment the WTO requires for other safeguard protection.

Another important discriminatory element of this safeguard, relative to the standard U.S. Section 201 safeguard requirement for a U.S. industry to receive import protection, is the need to show evidence of injury. Under the China safeguard, if any *other* WTO member uses its China safeguard, the United States can respond to the threat of Chinese exports being “deflected” to the U.S. market by imposing its own China safeguard without conducting an investigation to establish injury to the U.S. industry.¹⁵

Table 3 describes the five ITC investigations of Chinese exporters conducted since 2002 under the China safeguard law. In three of the five cases, the ITC voted that the petitioning U.S. industry was either injured or threatened with injury from Chinese exports and recommended that the U.S. President use a trade remedy such as a tariff or quota to protect the domestic industry. In each case, the U.S. President exercised discretion and declined to implement the

¹⁵ See §19 USC 2451a of the U.S. law, “Action in response to trade diversion.” See also the discussion in Messerlin (2004). Note that we do not refer to this phenomenon as trade diversion here, instead calling it “trade deflection.” Trade diversion has well-established meaning in the international trade literature that is distinct from this phenomenon. See Bown and Crowley (2004a).

ITC's trade remedy recommendations, instead stating, for example, in the *Pedestal Actuator* case that

“After considering all relevant aspects of the investigation, I have determined that providing import relief for the U.S. pedestal actuator industry is not in the national economic interest of the United States. In particular, I find that the import relief would have an adverse impact on the United States economy clearly greater than the benefits of such action” (United States, 2003).

The pattern of discriminatory restrictions targeting China (relative to other exporters) is likely to evolve further in response to changes in the global trade environment. For example, what would be the U.S. policy response if the Doha Round imposes additional constraints on the antidumping process? Given the substitutability of policy instruments available to U.S. industries seeking protection from Chinese competition, there is the real possibility that any reduction in frequency of AD-targeting against China would be accompanied by an *increased* incidence of China-specific safeguard actions triggered under the new Section 421 of the U.S. trade law, especially if accompanied by increased willingness on the part of the President to impose remedies recommended by the ITC.

3.2.2 OTEXA's China safeguard

While the United States has yet to use the Section 421 “China Safeguard” law to impose new trade restrictions on Chinese imports,¹⁶ this has not been the case with respect to the second China-specific safeguard, the “China Textile and Apparel Safeguard.” This trade policy is administered through OTEXA's Committee for the Implementation of Textile Agreements

¹⁶ Of course, there is also evidence from other laws of administered protection that merely *initiating* a case can have a dampening effect on trade flows. For the case of antidumping, which has been studied extensively because of relatively good data, see Prusa (1992), Staiger and Wolak (1994), and Bown (2004).

(CITA).¹⁷ While the investigative process and the ultimate outcome of the OTEXA's China safeguard investigation are much less transparent than for other U.S. trade policies, what appears typically to happen at the conclusion of these investigations is that OTEXA engages in bilateral consultations with the Chinese government with the aim of establishing an import limit, frequently through a voluntary restraint of Chinese exports. For example, in bilateral consultations held in response to an earlier *Knit Fabric* (product 222) China textile safeguard investigation, in December 2003 the Chinese government reportedly “agreed to hold its shipments to a level no greater than 7.5 percent (6 percent for wool product categories) above the amount entered during the first 12 months of the most recent 14 months preceding the request for consultations” (OTEXA, 2003). But this particular application of the safeguard was not sufficient to appease the U.S. industry, as it requested an additional OTEXA safeguard investigation of Knit Fabric from China in November 2004 as well (Table 4).

The most worrisome element of the OTEXA safeguard is the implied U.S. reversion to the “worst-practice” behavior of the 1980s that was supposed to be eliminated with the conclusion of the Uruguay Round negotiations and establishment of the WTO in 1995. This “safeguard” is discriminatory, the investigative process for injury is either non-existent at worst or non-transparent at best, and the outcome often seems to be in the form of “voluntary” arrangements, such as VERs.

3.3 U.S. PTAs with countries that compete with China in the U.S. market

A final example of U.S. trade policy that may have been motivated at least partially by the desire of current suppliers—domestic producers but also established foreign suppliers of U.S.

¹⁷ For details on the Department of Commerce's use of the China Textile and Apparel Safeguard, see the OTEXA website (www.otexa.ita.doc.gov/Safeguard_intro.htm), last accessed 11 January 2005.

imports—for preferential treatment relative to China is the recent increased willingness of other U.S. trading partners to pursue free trade agreements with the United States. Table 5 lists some of the preferential agreements negotiated by the United States since China’s WTO accession in 2001. On the part of the United States, most of these agreements entail social or political objectives as much as gains from trade. These include the offer of preferential access to the U.S. market, frequently for products that compete with Chinese exports, in exchange for commitments to enforce labor standards (Cambodia), to combat narcotics trade (ATDPEA), to promote democracy and environmental protection (CAFTA), and to establish better relations in the Middle East post-9/11 (Morocco, Bahrain).¹⁸

The partner countries in these preferential trade agreements often stand to gain by maintaining existing preference margins or increasing preferential access in the U.S. market in important product categories that also compete with Chinese exports. One such example is presented in Table 6, which lists each of these countries’ textile and apparel exports to the United States measured both in value terms and as a share of the country’s total exports to the U.S. market. For a number of these countries, a substantial share of their total exports to the U.S. market is in textiles and apparel, sectors where China is the largest single U.S. supplier with exports of nearly \$15 billion in 2003.

4. China as a Target

Why has China become the target of discriminatory treatment under U.S. trade policy? To answer this question, it is useful to take a look at the broader political economy of U.S. trade protection. As Krueger (1990) observes, “Examination of the prevailing pattern of protection in

¹⁸ Limão (2003) provides evidence that such agreements typically hinder future multilateral liberalization by showing the impact of earlier US PTAs on tariff-binding-reduction negotiations in the Uruguay Round.

the United States yields the easy conclusion that, whatever is used as a basis for deciding upon the pattern of protection, it is certainly not the criterion of Pareto optimality.” In the case of China, we can identify some “business as usual” elements, i.e., a U.S. pattern of discriminatory protection that typically targets newer, faster-growing suppliers. But there are also some China-specific considerations that help to foster a political environment in which China-bashing, like the earlier Japan-bashing, becomes acceptable or even desirable.

4.1 U.S. protection against new entrants that rock the trade boat

U.S. protection is often structured to protect not only domestic producers but also established suppliers of U.S. imports. If protection is motivated by a “conservative welfare function” (Corden 1974) that slows down economic change and thus maintains the status quo, it seems that for the United States this welfare function includes the welfare of important established trading partners and allies as well as domestic producers. U.S. multinational firms quite naturally will lobby to maintain the market shares of their off-shore subsidiaries as well as their domestic production facilities. Likewise, established foreign suppliers who “know the ropes” in Washington can be effective in gaining preferential access to the U.S. market and thus maintaining their shares as new and highly competitive entrants emerge. A U.S. trade policy goal of protecting established trading partners and the subsidiaries of U.S. multinationals as well as domestic producers can help to explain demonstrated U.S. preference for VERs and antidumping, as well as the use of FTAs that allow preferred partners to maintain or even increase market share.

An inclusive social welfare function is consistent with U.S. protection that targets fast-growing exporters whose growth will otherwise have “too large” an impact on established

market shares—of both domestic producers and traditional suppliers abroad. China’s recent export growth has indeed been dramatic. Yet Japan’s export growth in the early postwar period was even more dramatic, with an increase of more than 600 percent between 1949 and 1959 (Dam 1970, 297). And as Table 7 shows, China’s sustained high rate of export growth is not very different from that of several other successful Asian exporters. These countries have also faced trade policy discrimination from the United States during their periods of rapid export growth.

Growth rates do not tell the whole story, especially when growth is, as in the case of China and early postwar Japan, from a very low level. However, the same picture emerges if penetration of the U.S. market is used as a measure of impact and thus potential pressure for protection. China’s share of total U.S. merchandise imports was about 11 percent in 2003, compared with 10 percent for Japan and 3 percent for Korea. But both Japan and Korea had larger shares at their peak. Japan’s share of U.S. imports reached 22 percent in 1986, while even Korea, a much smaller economy, accounted for 4.5 percent of U.S. imports in the late 1980s (Prasad and Rumbaugh 2003, 48). Yet while the total impact of Chinese exports to the U.S. market has not yet reached the level of Japanese exports at the peak of U.S.-Japan trade conflict, protection is a sectoral phenomenon. As with Japan, Chinese exports to the United States are concentrated in a relatively few sectors and thus account for a much larger share of imports for these sectors.

4.2 Round up the usual suspects

A few industries stand out as perennial beneficiaries of U.S. protectionism: agriculture, steel, and textiles and apparel. Much of the *incidence* of U.S. protection across trading partners, i.e., which countries’ exports are restricted, can thus be explained in terms of export mix. As

noted in Section 2, discriminatory protection against Japanese exports began even before World War II with voluntary restrictions on textiles in the 1930s. China, with its large and fast-growing apparel exports, would thus have been targeted specifically for this reason. The scheduled dismantling of the MFA increased policy pressure to limit China's incursion into established markets.

Moreover, "non-market" economies are treated differently from market economies in the administration of U.S. trade policy, particularly antidumping policy. The justification in the case of China lies partly in the important role of state-owned enterprises in export activities, a domestic capital market that is guided by government priorities rather than market forces, and a policy-determined exchange rate maintained at a rate generally viewed as low relative to purchasing power parity. Yet the decision as to whether a particular country should be treated as a market economy is partly political. Under the terms of the 1999 U.S.-China bilateral agreement, key to China's WTO accession, the Commerce Department will continue to use the unfavorable non-market-economy designation to evaluate Chinese dumping until 2014— notwithstanding China's actual speed of transition. In contrast, Russia obtained a market economy designation in 2002 (Pearson 2004, 35).

4.3 Trade performance and macroeconomic imbalance

In the 1980s, many U.S. policy makers interpreted the huge bilateral trade deficit with Japan as the "smoking gun"—conclusive proof of Japan's unfair trade practices. The bilateral deficit thus provided an attractive justification for proposed measures to limit Japanese exports to the United States or to expand Japanese imports from the United States. Economists argued, mostly in vain, that the U.S. current account imbalance reflected a domestic macroeconomic

imbalance, specifically a large excess of U.S. domestic investment over domestic saving (McCulloch 1988, 312-3). Likewise, the Japanese current-account surplus reflected the large excess of domestic saving over domestic investment. Changes in sectoral trade policies might affect the composition of U.S.-Japan trade flows or even the size of this specific bilateral imbalance, but only macroeconomic changes could reduce the overall current-account imbalances of the two nations.

The recent emergence of a huge bilateral trade deficit with China, as well as the response in the policy community, thus have a somewhat familiar ring. Again, the root of the problem lies in U.S. macroeconomic imbalance, as U.S. domestic saving has plummeted thanks to record fiscal deficits.¹⁹ Again, trade with one country dominates the red ink. But this time around there is also an important difference. Japan in the 1980s had a huge overall current account surplus and bilateral surpluses with many other trading partners. In contrast, China is a major importer not only of raw materials but also of sophisticated manufactured goods. It has already passed Japan to become the world's third largest *importer*; its bilateral trade balances with most of its East Asian neighbors are negative. Even in trade with the United States, China is now a major importer. Between 2000 and 2003, U.S. exports to China increased 76 percent while exports to the rest of the world fell 9 percent (USTR 2004).

One Chinese policy does contribute to a large bilateral trade imbalance with the United States. While the U.S. dollar has fallen against other currencies by as much as a third, China has prevented a similar revaluation vis-à-vis the yuan. As a consequence, the Chinese yuan is now significantly undervalued relative to the dollar, making Chinese goods cheaper in U.S. markets and U.S. goods more expensive in Chinese markets. This undervaluation means that a larger share

¹⁹ Domestic saving is equal to private saving plus the government's budget surplus. Thus, the large fiscal deficit represents a major downward pull on overall U.S. saving.

of the global U.S. current account deficit shows up in bilateral trade with China. By the same logic, the yuan revaluation that Washington is demanding would reduce the bilateral trade deficit but would likely have little impact on the global deficit unless the United States at the same time moves to raise domestic saving by cutting the budget deficit.

4.4 Intellectual property rights and technology transfer

By the 1980s, Japan was no longer exporting low-end textiles and apparel but had become a major U.S. competitor in some high-technology products. Notwithstanding occasional accusations of industrial espionage, Japanese firms acquired advanced U.S. technologies mainly through licensing agreements with U.S. patent holders. But Japanese direct investments in U.S. high-technology firms were subjected to scrutiny by a special federal agency, and at least one proposed Japanese acquisition of a U.S. semiconductor producer failed to gain approval.

The different types of conflicts seen over decades of trade with Japan are present simultaneously in the case of China. While China remains a highly competitive supplier of low-end simple manufactured goods, it has also made surprisingly rapid progress in more sophisticated production activities. For China, the main intellectual property issues are out-and-out counterfeiting and piracy.²⁰ As part of its WTO accession agreement, China committed to improve protection of intellectual rights along the lines required by the Uruguay Round agreement on Trade Related Intellectual Property Rights (TRIPs). But while legal arrangements have indeed been improved, enforcement remains lackluster. In one recent high-profile case, General Motors claims that the Chinese Chery QQ is a knockoff of its own Chevrolet Spark.

²⁰ Counterfeiting refers to unauthorized production of trademarked products such as fake designer-label clothing. Piracy refers to unauthorized reproduction of copyrighted material such as CDs or videos as well as unauthorized use of patented technologies.

And in an echo of policy toward Japan in the 1980s, the Committee on Foreign Investment in the United States will review the proposed IBM sale of its personal computer business to the Chinese Lenovo Group.

4.5 Trade policies in aid of social objectives

U.S. unions, environmental organizations, and other non-governmental organizations have increased their advocacy of trade restrictions intended to prevent newer trading partners, mostly less-developed or transition economies, from benefiting from lower costs that are due to lower labor and environmental standards. In April 2004, the AFL-CIO asked President Bush to punish China under Section 301 of the Trade Act of 1974 for gaining unfair advantage in U.S. markets through repression of workers' rights. Under Section 301, violation of internationally recognized labor rights is an unfair trade practice. According to the complaint, China's labor practices resulted in the loss of as many as 727,000 U.S. factory jobs (Greenhouse and Becker 2004). Although the Bush administration rejected the complaint, the administration has continued to press China on labor issues such as occupational safety and pension rights (Hufbauer and Wong 2004, 12).

China's relatively weak environmental policies and even weaker enforcement of current policies are another source of public pressure on U.S. trade officials to "do something" about Chinese exports. Like many other developing countries, China has experienced a marked deterioration in environmental quality but at the same time has begun to address the situation through new policies to limit air and water pollution. Yet as with intellectual property, enforcement effort has lagged behind. Although the costs are borne primarily by China's own residents, some pollutants, such as gaseous mercury from Chinese coal-fired power plants, are

already finding their way into the oceans and even into the air breathed by residents of distant countries (Pottinger 2004).

5 Economic Consequences of Discriminatory Treatment

In previous sections, we have documented discriminatory policies applied by the United States and other nations to trade with China. In this section we review some likely implications for trade flows, U.S. economic welfare, and trade policy developments abroad. Some are familiar from the U.S. experience with discriminatory trade barriers to imports from Japan and other highly competitive Asian exporters.

5.1 Trade diversion

Discriminatory U.S. trade policies that limit imports only from China may protect domestic producers, but more often the main effect is to divert import sourcing to the next most competitive supplier, usually another Asian country or a trading partner such as Mexico or Costa Rica with preferred access to the U.S. market. For goods in which China has the world's lowest *opportunity* cost, trade diversion reduces overall economic welfare both in China and in the United States, though it does generate some gains for the “beneficiaries” of diverted trade, i.e., the countries whose exports to U.S. markets rise as a consequence. Global welfare is reduced to the extent that the affected good is now produced at higher cost.²¹

²¹ The relevant cost is opportunity cost, i.e., the value of the output foregone in order to produce a particular good. The gains from trade arise mainly from shifting production of any particular good to the place where it can be produced at the lowest opportunity cost, i.e., the country with comparative advantage. Trade flows are, however, based on comparative money costs (competitiveness), which may diverge from opportunity costs for a variety of reasons. For example, a significantly undervalued currency may enable China to export some goods in which it does not have the lowest opportunity cost. The effects of currency undervaluation are similar to those of an across-the-board export subsidy—beneficial overall to the importing country but welfare-reducing for China and the rest of the world.

An additional complication arises when Chinese export restrictions are substituted for U.S. import barriers. Whether exports are controlled through “voluntary” export restraints or explicit export taxes, this type of trade restriction allows China to appropriate the difference between the good’s price in the U.S. market and its cost to Chinese suppliers. This raises the cost to the United States and reduces the loss to Chinese suppliers of the restricted product. Implementation of quantitative export restraints also tends to reduce active competition among suppliers, thus creating additional welfare losses through exercise of market power.

Whatever the specific trade policy, one sure effect is higher cost to U.S. buyers. For goods such as clothing and consumer electronics, Chinese products are often those appealing to lower income “Wal-Mart shoppers”—and thus the impact is likely to be regressive. Induced upgrading, discussed below, will also have a regressive impact as the mix of U.S. imports from China shifts toward higher-price goods. But many imports are intermediate goods, purchased by American businesses as inputs for use in their own production activity. Here higher prices harm the competitiveness of U.S. producers and may even speed their exit from U.S. production. As an example, in 1991 U.S. antidumping duties on imported flat-panel displays used in laptop computers raised the costs of U.S. producers relative to their competitors abroad; laptop production accordingly shifted from California and Texas to Japan, Canada, Ireland, and Singapore (Irwin 2002, 80).

5.2 Quality upgrading

Quantitative limits on Chinese exports are likely to accelerate product upgrading, i.e., a move toward the more sophisticated and higher-priced varieties within a product category. Upgrading is also encouraged by use of a flat-rate (i.e., specific or per-unit) export or import tax

but not a trade tax that is levied as a percentage of the good's price. Although product upgrading is part of the normal process of industrial development, trade restrictions tend to raise the speed with which this occurs. Thus, Japan's voluntary restriction of auto exports to the United States accelerated its manufacturers' shift from the small economy cars that had previously constituted the bulk of Japan's sales in the U.S. market to high-end luxury models competing more directly with the products of the U.S. "big three" auto makers. European producers of smaller cars, who had been losing their share in the U.S. market to Japanese competitors, benefited from trade diversion as they filled the low-end gap in U.S. auto imports left as Japanese firms upgraded their exports. In December 2004, China announced a flat-rate export tax on apparel exports with the explicit objective of *promoting* the quality upgrading of its export-oriented production. The plan is evidently to cede the low end of the apparel market to low-wage countries like Bangladesh.

To the extent that the goal of U.S. trade policy is to preserve the market share of its own producers and to prevent domestic job losses, induced product upgrading may mean that protection can backfire. As Chinese firms climb the "quality ladder" at an increased pace or even discontinuously (leapfrogging), their products become more directly competitive with the output of firms located in the United States. The case of Japanese autos provides an instructive example. In the auto case, U.S. protection also accelerated Japanese foreign direct investment in the United States. Although this outcome was desired by supporters of the voluntary restraint agreement with Japan, including the United Auto Workers, most of the Japanese "transplants" are located far from Detroit and are not unionized. Industry employment has been maintained overall, but the VER prevented neither losses to domestic producers nor displacement of their workers.

5.3 Effects on global trade flows

U.S. trade policy toward China can have important spillover effects on other trade flows, thus creating new trade tensions and the global spread of protectionist pressures. U.S. antidumping duties on exports from China are likely to induce both trade *deflection* and trade *depression*. Trade deflection is the tendency of Chinese exporters to react to a new U.S. trade restriction by shifting sales to other, as-yet unrestricted markets, thereby producing import surges in those markets. Trade depression is the reduction in China's *own* imports from the United States as well as other countries, as U.S. trade barriers cause more of China's export-oriented production to be retained domestically.

The deflection of Chinese exports has two noteworthy effects. For countries that actively compete with China in the same markets, the resulting surge in deflected Chinese exports is likely to fuel increased protectionist (anti-China) sentiment, and thus increasing resort to antidumping, safeguards, or China safeguards. Exporters from other countries—including U.S. firms, which are currently the third most targeted globally in antidumping actions—are also likely to get caught up in the protectionist web. But some may benefit from the deflection of Chinese exports. For countries importing intermediate inputs from China, trade deflection means downward pressure on the price of these inputs and a resulting further advantage relative to their U.S. competition (who must already pay a higher price for the same inputs due to the direct effects of U.S. protection).

Trade depression means more Chinese output retained at home and thus more domestic pressure in China for import protection. This may lead to an increase in China's own use of antidumping. This type of protection can be structured in a discriminatory manner, again perhaps targeting firms in the United States.

5.4 Increased pressure for China to enter preferential trade agreements

China's expanding trade with the rest of the world, partly the result of trade deflection, together with its frustration with lack of access to the U.S. market, has increased the pressure to negotiate trade agreements with other countries (Antkiewicz and Whalley 2004). As the terms of China's WTO accession have required it to take on more liberalization commitments than many other countries, potential partners will likely have to make significant market-access commitments of their own with respect to China. This could produce an Asian regional trade agreement that excludes the United States, thereby leaving U.S. exporters with "least favored nation" status not only in the Chinese market but, perhaps more important, in other Asian markets as well.

6 Conclusion

This paper examines recent U.S. policy toward imports from China, highlighting important explicitly and implicitly discriminatory elements. These include the explicitly discriminatory terms of China's 2001 WTO accession as well as the implicitly discriminatory administration of antidumping. We compare the recent trade policy treatment of China with earlier trade policy discrimination directed toward Japan. One important difference is that unlike discriminatory U.S. treatment of Japan in the 1980s, in which "gray-area" measures like voluntary export restraints were prominent, most U.S. actions toward China are fully consistent with current WTO rules, including the special terms of China's 2001 WTO accession. In examining the underlying reasons for targeting of China (and, earlier, Japan), we identify some characteristics of China and Chinese trade that make it more likely to receive special attention. In particular, China's highly competitive garment industry is likely to be targeted simply because

this has long been a politically sensitive sector in the United States and also in most other industrialized countries.

Discriminatory restrictions on U.S. trade with China protect competing domestic industries but also non-Chinese foreign suppliers with an established presence in the U.S. market. For the United States, this means other Asian trading partners, but especially countries that have negotiated free trade agreements with the United States. China's rapid development of highly competitive exports industries and its WTO accession in 2001 have increased the payoff to having preferred access to the U.S. market. As with earlier discriminatory actions directed primarily at Japan, and with the MultiFibre Arrangement that began with discriminatory action directed at Japan and ended with a global network of managed trade, U.S. trade policy toward China is likely to have complex effects on global trade flows and may produce outcomes far different from those intended. Not surprisingly, discriminatory trade restrictions are costly in terms of overall national and global welfare. Perhaps more surprisingly, they may be ineffective or even counterproductive in protecting production and workers in the affected domestic industries.

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**Table 1. U.S. Antidumping Actions against
Its Ten Most Frequently Investigated Trading Partners, 1980-2003**

a. 1990-2003

Country		Antidumping Investigations	Investigations Resulting in Duties (share of investigations)		Only Country Named in Investigation (share of investigations)		Mean Duty, conditional on duties imposed	Share of U.S. total import market in 1996 (rank)	
1.	China	91	61	(67%)	41	(45%)	127.02%	3.5%	(8)
2.	Japan	53	33	(62%)	18	(34%)	68.44%	14.0%	(2)
3.	Korea	39	20	(51%)	3	(8%)	16.65%	2.7%	(10)
4.	Taiwan	30	15	(50%)	3	(10%)	20.46%	3.7%	(7)
5.	Mexico	26	11	(42%)	4	(15%)	41.18%	10.0%	(3)
6.	Germany	26	10	(38%)	0	(0%)	37.60%	4.9%	(4)
7.	India	25	11	(44%)	5	(20%)	52.89%	0.8%	(24)
8.	Canada	25	6	(24%)	11	(44%)	25.35%	21.0%	(1)
9.	Brazil	24	12	(50%)	2	(8%)	76.47%	1.2%	(16)
10.	Italy	19	10	(53%)	2	(11%)	22.75%	2.3%	(11)
	Other	272	105	(39%)	31	(11%)	54.55%	35.9%	
Total		630	294	(47%)	120	(19%)	64.15%	100.0%	

b. 1980-1989

Country		Antidumping Investigations	Investigations Resulting in Duties (share of investigations)		Only Country Named in Investigation (share of investigations)		Mean Duty, conditional on duties imposed	Share of U.S. total import market in 1985 (rank)	
1.	Japan	65	41	(63%)	28	(43%)	50.40%	20.1%	(2)
2.	West Germany	34	11	(32%)	6	(18%)	34.56%	5.7%	(3)
3.	Italy	30	10	(33%)	4	(13%)	67.90%	2.9%	(8)
4.	Taiwan	29	12	(41%)	12	(42%)	29.42%	4.6%	(6)
5.	France	28	10	(36%)	4	(13%)	23.05%	2.6%	(10)
6.	Korea	27	14	(52%)	9	(33%)	15.71%	3.3%	(7)
7.	Brazil	25	11	(44%)	12	(48%)	37.35%	2.2%	(11)
8.	Canada	25	10	(40%)	18	(72%)	14.78%	21.0%	(1)
9.	United Kingdom	23	4	(17%)	3	(13%)	30.86%	4.6%	(5)
10.	China	17	12	(71%)	9	(53%)	44.39%	0.7%	(22)
	Other	181	52	(29%)	32	(18%)	35.06%	32.3%	
Total		484	187	(39%)	137	(28%)	36.81%	100.0%	

Note: data compiled by the authors from the *Federal Register*. U.S. import data from Feenstra (2000).

**Table 2. China’s Relative Performance in
Multi-Country U.S. AD Investigations that End in Duties against at Least One Country**

Time Period	Mean (Median) Duty Facing China	Mean (Median) Duty Facing All other Investigated Countries	Mean (Median) China Premium
1990-2003 (23 multi-country cases involving China)	117.38% (118.41%)	36.41% (32.23%)	80.97% (84.20%)
1980-1989 (6 multi-country cases involving China)	33.94% (25.65%)	18.01% (10.81%)	15.93% (20.24%)

Note: data compiled by the authors from the *Federal Register*. The duty rate used is the final “all other firm” rate in a U.S. antidumping investigation, which is typically calculated as the trade weighted-average of the firm-specific rates of duty applied in the investigation.

Table 3. China Safeguard Investigations by the U.S. under Section 421

ITC Case No.	Product	Year Investigation Initiated	Outcome
TA-421-1	Pedestal Actuators	2002	Affirmative ITC vote, no remedy imposed
TA-421-2	Steel Wire Garment Hangers	2002	Affirmative ITC vote, no remedy imposed
TA-421-3	Brake Drums and Rotors	2003	Negative ITC vote
TA-421-4	Ductile Iron Waterworks Fittings	2003	Affirmative vote, no remedy imposed
TA-421-5	Uncovered Innerspring Units	2004	Negative ITC vote

Note: information collected by the authors from the *Federal Register*.

Table 4. Examples of China Textile Safeguard Investigations by the U.S. in 2004

OTEXA Category	Product under Investigation
349/649	Brassieres and other body supporting garments
350/650	Dressing gowns and robes
222	Knit fabric
447	Wool trousers
620	Other synthetic filament fabric
301	Combed cotton yarn
352/652	Cotton and man-made fiber underwear
338/339	Men's & boys' and women's & girls' cotton knit shirts and blouses
340/640	Men's & boys' cotton and man-made fiber shirts, not knit
638/639	Men's & boys' and women's & girls' man-made fiber knit shirts and blouses
647/648	Men's & boys' and women's & girls' man-made fiber trousers
347/348	Men's & boys' and women's & girls' cotton trousers

Note: Requests for China Textile Safeguard Action between October 8 and December 1, 2004, downloaded from the Office of Textile and Apparel's website, <http://otexa.ita.doc.gov/chinare1dec1.pdf> .

Table 5. Recent Examples of U.S. Preferential Trade Agreements

U.S. Agreements since 2001	Description from U.S. Trade Representative
<i>Cambodian Textile Agreement</i>	“increases Cambodia's quota for textile imports by nine percent...[in exchange for]... Cambodia's progress towards ensuring that working conditions in its garment sector are in "substantial compliance" with internationally recognized labor standards and provisions of Cambodia's labor law.” ¹
<i>Andean Trade Promotion and Drug Eradication Act (ATPDEA)</i> – Colombia, Bolivia, and Peru (and Ecuador)	“...provides the four Andean countries with duty-free access to U.S. markets for approximately 5,600 products. The program expired in December of 2001 and was renewed as part of the Trade Act of 2002... providing incentives for these four Andean countries to diversify their economies away from narcotics production.” ²
<i>Dominican Republic – Central American Free Trade Agreement (DR-CAFTA)</i> – Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, Costa Rica	“will contribute to the transformation of a region that was consumed in internal strife and border disputes just a decade ago but is now a successful regional economy with flourishing democracies.... U.S. is also strengthening ties with the DR-CAFTA countries by entering into an Environmental Cooperation Agreement.” ³
<i>Morocco Free Trade Agreement</i>	“...this FTA sends a powerful signal that the United States is firmly committed to supporting tolerant, open and more prosperous Muslim societies. I hope other nations in the Middle East and North Africa will closely study the terms of this agreement, and will view it as a model to advance their economic relationships with the United States.” ⁴
<i>Bahrain Free Trade Agreement</i>	“Muslim countries can become full participants in the rules-based global trading system, as the United States considers lowering the trade barriers with the poorest Arab nations.... Recommendation: A comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children’s future. (The 9/11 Commission Report, Pages 378-379)” ⁵

Sources: USTR’s website, http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html , last accessed on 13 January 2005.

¹USTR press release, “U.S.-Cambodian Textile Agreement Links Increasing Trade with Improving Workers’ Rights,” 01/07/2002.

²ATPA fact sheet from the USTR, “New Andean Trade Benefits,” 09/25/2002.

³ USTR press release, “Dominican Republic Joins Five Central American Countries in Historic FTA with U.S.,” 08/05/2004

⁴ USTR press release, “U.S. and Morocco Conclude Free Trade Agreement,” 03/02/2004

⁵ USTR press release, “United States and Bahrain Sign Free Trade Agreement,” 09/14/2004

Table 6. Preferential Trade Agreements Partners' 2003 Textile and Apparel Exports to the U.S., in Comparison with China

Country	Value of 2003 Textile and Apparel Exports[†] to U.S.	2003 Textile and Apparel Exports to U.S. as a Share of Country's Total Exports to U.S.
Cambodia	\$1,252,000,000	99.12%
ATPDEA Countries		
Colombia	\$546,100,000	8.61%
Bolivia	\$34,265,892	18.53%
Peru	\$518,900,000	21.48%
Ecuador	\$19,968,924	0.74%
CAFTA Countries		
Dominican Republic	\$2,149,000,000	48.23%
El Salvador	\$1,754,000,000	86.90%
Honduras	\$2,576,000,000	77.78%
Nicaragua	\$484,300,000	62.98%
Guatemala	\$1,789,000,000	60.55%
Costa Rica	\$598,500,000	17.84%
Morocco	\$77,214,816	19.49%
Bahrain	\$187,800,000	49.64%
China	\$14,860,000,000	9.80%

Notes: [†] NAICS product categories 313 (Textiles and Fabrics), 314 (Textile Mill Products) and 315 (Apparel and Accessories). Data from the ITC *DataWeb* database.

Table 7. Percentage Change in Export Values in Constant U.S. Dollars

Country	Period	No. of years	Average annual growth rate
Japan	1954-81	27	14.2
Korea	1960-95	35	21.5
Malaysia	1968-96	28	10.2
China	1978-02	24	11.9
NIEs*	1966	31	13.1

Source: Prasad and Rumbaugh 2003, 48. *Newly industrialized economies of Hong Kong SAR, Korea, Singapore, and Taiwan (Province of China).