6 US trade policy towards China: discrimination and its implications

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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 US financial assets and various 'unfair' trade practices. These were also staples of the US 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 US 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 US trade policy towards China. We first examine the historical context of US discriminatory trade practices, both as permitted under GATT/WTO rules and through bilateral measures taken outside this framework. We then take a closer look at specific US policy actions towards China: antidumping, WTO accession and free-trade areas negotiated with China's competitors. The next section compares recent US treatment of China with other major instances of US trade policy discrimination, particularly towards Japan. This is followed by consideration of the economic implications of the discriminatory trade policy actions, including their impact on other trading partners, and a conclusion.

US 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 non-discrimination in world trade, yet opting for a range of discriminatory policies in its own trade regime. While promoting the most-favoured-nation (MFN) principle in the General Agreement on Tariffs and Trade (GATT), US 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 US markets, clearly violated the GATT's MFN principle. Moreover, US 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 US trade officials are no longer negotiating targets for Japanese imports, quantitative trade commitments are not entirely a thing of the past—the website of the Office of the United States Trade Representative (USTR) reports a December 2004 agreement with Korea that will guarantee a minimum volume of Korean rice imports from the United States over a ten-year period.[1]

US 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 Japan were small relative to the US 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 US threats of unilateral action. But in the early post-war period, with its economy in tatters, Japan hardly appeared to pose a competitive threat to US industries. The United States assisted in the reconstruction of 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 per cent of GATT trade therefore exercised their privilege under Article XXV to refuse to extend MFN treatment to Japan (Dam 1970: 347–8). Although the United States was not among the GATT members that 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 post-war 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 Multi-Fiber Arrangement (MFA), as unrestricted products and later unrestricted exporting countries filled the import gap.[2] The quantitative form of Japan's VERs also promoted product upgrading and may thus have accelerated Japan's transition to more-sophisticated manufactured exports. We discuss these and other externalities associated with discriminatory protection in greater detail below.

Discrimination against Japan and later China has also been implicit in the US application of GATT-consistent laws on unfair trade such as antidumping, as we

document in the next two sections. Elastic criteria have made the dumping laws the most popular policy instrument for US 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 one-fifth of all cases in 2002 (Messerlin 2004: Table 6.3). 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 'grandfathered' preferential arrangements already in place, most notably British imperial preferences favouring 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 flood US markets. The US 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 US 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, which was 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 the North American Free Trade Agreement (NAFTA) and also participates in a wide variety of looser agreements with specific trading partners (USTR website).

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*-favoured-nation status. US trading partners, including the members of the Association of Southeast Asian Nations (ASEAN), are now contemplating FTAs with the United States less to expand market access than to retain their current access (Naya and Plummer 2005).[7] Some analysts view the pressure on excluded countries to negotiate 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 2006). 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 2005). Talks are even underway with India, among others.

US TRADE POLICY TOWARDS CHINA: IMPLICIT AND EXPLICIT DISCRIMINATION

In this section of the paper we present data on specific US trade policies that discriminate against China. The discussion is split into two parts. The first two sub-sections focus on *explicitly* discriminatory trade policy, where the result of the US trade policy is to *raise* barriers against Chinese exporters, thus allowing exporters from other countries preferential access to the US market. The third sub-section focuses on *implicitly* discriminatory trade policy, which *lowers* US barriers facing non-Chinese exporters to the detriment of their Chinese competitors.

US 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, means that antidumping *can* be a highly discriminatory trade policy action, yet it also has the potential to be imposed on a relatively non-discriminatory basis as well. With this perspective in mind, we examine some of the stylized facts on US use of antidumping against Chinese exporters.

Table 6.1 provides a breakdown of US antidumping activity against its ten most frequently targeted trading partners for two separate periods: 1980–89 and 1990–2003. Not surprisingly, in the more recent period Chinese exporters (a) are the most frequently investigated producers, being named in 91 different antidumping investigations, (b) face a higher likelihood (67 per cent) of having investigations result in duties than other producers, which together leads them to (c) face more antidumping duty actions (61) than producers from any other country, where they finally (d) face the highest level of duties imposed (an average *ad valorem* rate of 127 per cent) 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 US antidumping

Table 6.1 US 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, % (rank)*	*Share of US total import market in 1996, %*
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. 1980–89

Country	*Antidumping investigations*	*Investigations resulting in duties (share of investigations, %)*	*Only country named in investigation (share of investigations, %)*	*Mean duty, conditional on duties imposed % (rank)*	*Share of US total import market in 1985, %*
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

Source: Data compiled by the authors from the *Federal Register*. US import data from Feenstra (2000).

process, even though at the midpoint of the 1990–2003 study period China was still only the *eighth* largest US trading partner—the source of just 3.5 per cent of total US 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 US antidumping investigation. Over the 1990–2003 period, China was the only country targeted in 45 per cent of the cases in which it was under investigation.[11] Most US antidumping investigations in recent years have considered unfairly traded products from *multiple* foreign countries simultaneously, a trend that has increased since the mid-1980s when a change in the US 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. Other things being equal, this change could bias the decision of a US petitioning industry toward naming *more* foreign countries in 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 US imports from other trading partners.

Given that so many antidumping 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 6.2 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 US market. By examining the outcome facing Chinese firms relative to that 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 antidumping duty imposed across countries. The data for the 1990–2003 period show that the average duty faced by Chinese firms 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 6.1, it is also informative to compare the US antidumping policy facing China over the 1990–2003 period with the US antidumping situation facing Japan over the 1980–89 period, during the height of 'Japan-bashing'. Similar to the recent circumstances facing China, in the 1980s Japan was the most targeted exporter in US antidumping actions, targeted nearly twice as often as West Germany, the next most frequently targeted exporting country. Not only were Japanese exporters more frequently investigated than other exporters, but they were also more likely to face affirmative decisions (63 per cent, compared to the average of 39 per cent for other exporters) and thus to have investigations result in antidumping duties.

Table 6.2 China's relative performance in multi-country US antidumping investigations that ended 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	117.38	36.41	80.97
(23 multi-country cases involving China)	(118.41)	(32.23)	(84.20)
1980–89	33.94	18.01	15.93
(6 multi-country cases involving China)	(25.65)	(10.81)	(20.24)

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

However, Table 6.1 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 per cent of total US imports in 1985, compared with China's share of just 3.5 per cent in 1996. As a more important trading partner with faster-growing exports (see Table 6.8), 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 being equal, China in the 1990s should have been *less* frequently targeted by US antidumping investigations, compared to Japan in the 1980s. Moreover, Table 6.1 shows that while antidumping duties facing Japanese exporters in the 1980s were higher than the average duties facing firms in other countries, the duties facing Chinese exporters in the 1990s were more than twice as high as the average duties facing all other exporters.[13]

There are a number of potential explanations for differential treatment of 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 US antidumping investigations due to the sectoral composition of its exports. However, given the proclivity towards antidumping activity in the steel sector, which alone accounts for nearly 40 per cent of all antidumping cases, when combined with Japan's (net exporter) and China's (net importer) historical global trading position in steel, the sectoral explanation seems highly improbable. Rather, the US 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.[14]

As with Japan in the 1980s, China's rapid export growth was a threat not only to US import-competing industries, but also to suppliers in other countries with an established presence in the US market and thus a concern about losing market share to Chinese competitors. A rational response for these exporters is to use the US trade policy process (in this case, antidumping) to obtain preferential access to the US market if they can no longer compete with Chinese firms under conditions of MFN treatment. In the case of antidumping, the preferential access can be obtained either by ensuring that Chinese firms face US 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 US trade policy has had the effect of protecting not only domestic producers but also non-targeted foreign suppliers. These studies establish that discriminatory application of antidumping duties in the United States has led to substantial *trade diversion*, i.e., increases in US imports in targeted product categories from *non-targeted* foreign suppliers—who thus gained from the US trade policy along with domestic producers. These gains likely came at the expense of exporters first in Japan and then also in China, as they faced higher US antidumping duties than other foreign suppliers (more than twice as high in the case of China).

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

A second area of trade policy where China currently faces discriminatory treatment stems from its WTO accession in 2001. 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 dumping). 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.[15] 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 US trade law, is applicable to all products imported from China. It is administered in much the same way as the standard, WTO-authorized safeguard law of Section 201. Under both laws, the US International Trade Commission (ITC) is charged with investigating injury, and in the case of an affirmative finding, making a remedy recommendation, which the US president then has the discretion to modify, accept or reject.[16] The second new safeguard facing imports from China, which is administered by the Office of Textiles and Apparel (OTEXA) in the US Department of Commerce, is applicable to all US imports of textile and apparel products from China.

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 US trade restrictions authorized under the standard safeguards law (Section 201) must be applied on a most-favoured-nation (MFN) basis, so as not to discriminate among foreign suppliers. The China safeguards, which are discriminatory both in their consideration and in the potential application of US trade restrictions against exporters from one country only, are thus entirely antithetical to the MFN treatment that the WTO requires for other safeguard protection.

Another important discriminatory element of this safeguard, relative to the standard US Section 201 safeguard requirement for a US industry to receive import protection, is a less stringent requirement 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 US market by imposing its own China safeguard without conducting an investigation to establish injury to the US industry.[17]

Table 6.3 describes 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 US industry was either injured or threatened with injury by Chinese exports and recommended that the US president use a trade remedy such as a tariff or quota to protect the domestic industry. In each case, the president exercised discretion and declined to implement the 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 US 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 US policy response if the Doha Round were to impose additional constraints on the antidumping process? Given the substitutability of alternative policy instruments available to US industries seeking protection from Chinese competition, there is the real possibility that any reduction in the frequency of antidumping cases targeting China would be accompanied by an *increase* in the incidence of China-specific safeguard actions triggered under the new Section 421 of the US trade law—especially if there were also an increase in the president's willingness to impose remedies recommended by the ITC.

The OTEXA China safeguard

While the United States has yet to use the Section 421 'China Safeguard' law to impose new trade restrictions on Chinese imports,[18] the other China-specific safeguard, which pertains only to textiles and apparel, has already resulted in new import restrictions.

Table 6.3 China safeguard investigations by the United States 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 ITC vote, no remedy imposed
TA-421-5	Uncovered innerspring units	2004	Negative ITC vote

Source: Information collected by the authors from the *Federal Register*.

The 'China Textile and Apparel Safeguard' is administered through the OTEXA Committee for the Implementation of Textile Agreements (CITA).[19] The investigative process and the ultimate outcome of an OTEXA China safeguard investigation are both much less transparent than for other US trade policies. However, it appears that these investigations typically culminate in bilateral consultations between the OTEXA and the Chinese government. The aim of these consultations is to establish an import limit, frequently through a voluntary restraint by China of its exports to the United States. For example, in bilateral consultations held in December 2003 in response to an earlier *Knit Fabric* (product 222) China textile safeguard investigation, the Chinese government 'agreed to hold its shipments to a level no greater than 7.5 per cent (6 per cent 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 satisfy the US industry, which requested an additional OTEXA safeguard investigation of Knit Fabric from China in November 2004 as well (Table 6.4).

The most worrisome element of the OTEXA safeguard is the implied US reversion to the 'worst-practice' behaviour of the 1980s, including practices that were supposed to be eliminated with the conclusion of the Uruguay Round negotiations and establishment of the WTO in 1995. This 'safeguard' law is discriminatory in its application (Chinese textiles and apparel only), 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.

Given the potential for the use of safeguard protection by the United States and other major markets, China imposed export taxes on 148 of its textile products on 1 January 2005, immediately following the end of the MFA. Exports of textile products

Table 6.4 Examples of China textile safeguard investigations by the United States 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 fibre underwear
338/339	Men's & boys' and women's & girls' cotton knit shirts and blouses
340/640	Men's & boys' cotton and man-made fibre shirts, not knit
638/639	Men's & boys' and women's & girls' man-made fibre knit shirts and blouses
647/648	Men's & boys' and women's & girls' man-made fibre trousers
347/348	Men's & boys' and women's & girls' cotton trousers

Note: Requests for China Textile Safeguard Action between 8 October and 1 December, 2004, downloaded from the Office of Textile and Apparel's website, <http://otexa.ita.doc.gov/chinarc1dec1.pdf>; accessed 9 May 2006.

still surged in the early months of 2005, and in May China raised its taxes on 74 of the same goods (Buckley 2005). Nonetheless, the OTEXA introduced new safeguards, and the European Union threatened to do likewise unless China reduced exports on its own. At the end of May, China reacted by withdrawing its export taxes. These events raise interesting issues concerning the effects of alternative policy measures used to limit imports to a desired level.

Like a US safeguard tariff or quota, an export tax would reduce the volume of Chinese exports to the United States (and also to other markets), thus raising the prices US consumers pay for products imported from China. But under an export tax, the Chinese government collects the revenue. The standard analysis of a US safeguard quota or tariff on apparel imports predicts that it will be welfare-reducing for the economy as a whole, notwithstanding possible gains to competing domestic producers and tax revenue generated. If the trade is instead restricted to the same level by a Chinese export tax, the negative impact on US welfare would be even larger. This is because of the revenue collected by the Chinese. With a safeguard in the form of an import tax on Chinese products, the same revenue would go to the US Treasury; in the case of a safeguard quota, to the recipients of the licences used to regulate imports. The loss to China would likewise be smaller with an export tax than an import tariff or quota.[20]

In the 1970s and 1980s, the United States negotiated VER agreements with Japan and other highly competitive new exporters as a means to limit US imports selectively and thus to avoid disrupting trade with established suppliers. VERs are now prohibited by WTO rules, but China's actions in voluntarily restraining its exports differed from old-style VERs in that all exports, not just exports to a particular market, were being taxed. The export tax revenue could be seen as implicit compensation paid to China by the United States and other importing countries for limiting its own exports. Of course, China was offering to restrain its exports only because its other option was to face import safeguards, and the export taxes were rescinded after safeguards were announced. From the perspective of overall national welfare, both China and the importing countries would be better off under freer trade, i.e., without either an export tax or safeguard protection in the importing countries.

US PTAs with countries that compete with China in the US market

A final example of US trade policy that may have been motivated at least partially by the desire of current suppliers—domestic producers but also established foreign suppliers of US imports—for preferential treatment relative to China is the recent increased willingness of other US trading partners to pursue free trade agreements with the United States. Table 6.5 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 US market, frequently for products that compete with Chinese exports, in exchange for commitments to enforce labour standards (Cambodia), to combat narcotics trade (ATPDEA), to promote democracy and environmental protection (CAFTA), and to establish better relations in the Middle East post-9/11 (Morocco, Bahrain).[21]

The partner countries in these preferential trade agreements often stand to gain by maintaining existing preference margins or increasing preferential access to the US market in important product categories that compete with Chinese exports. One such example is presented in Table 6.6, 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 US market. For a number of these countries, a substantial share of their total exports to the US market is in textiles and apparel, sectors where China is the largest single US supplier with exports of nearly $15 billion in 2003.

How does trade policy discrimination against China affect the sourcing of US textile and apparel imports? We use Table 6.7 to compare the US import market for textiles and apparel in 2003 with the Japanese and Australian import markets in the same year, as these were two developed countries with relatively liberal market access where textiles and apparel trade based on comparative advantage was more likely to be reflected. Most importantly, neither applied country-specific quotas on trade in textile products. The data suggest that, in a US trade regime without discrimination against China, China would stand to gain considerable market share in the US at the expense of other current import sources. This provides a clear motive for efforts by

Table 6.5 Recent examples of US preferential trade agreements

US agreements since 2001	*Description from US Trade Representative*
Cambodian Textile Agreement	'increases Cambodia's quota for textile imports by nine per cent … [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.'[a]
Andean Trade Promotion and Drug Eradication Act (ATPDEA) – Colombia, Bolivia, Peru and Ecuador	'… provides the four Andean countries with duty-free access to US 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.'[b]
Dominican Republic – Central American Free Trade Agreement (DR–CAFTA) – 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 … US is also strengthening ties with the DR-CAFTA countries by entering into an Environmental Cooperation Agreement.'[c]
Morocco Free Trade Agreement	'… 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.'[d]
Bahrain Free Trade Agreement	'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 US 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)'[e]

Notes

a USTR press release, 'US–Cambodian Textile Agreement Links Increasing Trade with Improving Workers' Rights', 7 January 2002.
b ATPA fact sheet from the USTR, 'New Andean Trade Benefits', 25 September 2002.
c USTR press release, 'Dominican Republic Joins Five Central American Countries in Historic FTA with US', 5 August 2004.
d USTR press release, 'US and Morocco Conclude Free Trade Agreement', 2 March 2004.
e USTR press release, 'United States and Bahrain Sign Free Trade Agreement', 14 September 2004.

Source: USTR website, <http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html>; accessed 13 January 2005.

Table 6.6 Preferential trade agreement partners' 2003 textile and apparel exports to the United States, compared with China

Country	*Value of 2003 textile and apparel exports to US ($)*	*2003 textile and apparel exports to US as a share of country's total exports to US (%)*
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

Note: NAICS product categories 313 (Textiles and Fabrics), 314 (Textile Mill Products) and 315 (Apparel and Accessories).

Source: Data from the ITC *DataWeb* database.

other US trading partners to retain preferential access to the US market through PTA formation or by having the United States impose China-specific import restrictions.

CHINA AS A TARGET

Why has China become the target of discriminatory treatment under US trade policy? To answer this question, it is useful to take a look at the broader political economy of US trade protection. As Krueger (1993) observes, 'Examination of the prevailing pattern of protection in 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 US pattern of discriminatory protection that typically targets newer, faster-growing suppliers. But there are also some China-specific considerations

Table 6.7 Sources of US, Australian and Japanese imports of textiles and clothing, 2003

Exporter	*Importer*		
	United States (%)	*Australia (%)*	*Japan (%)*
China	17.4	49.9	71.7
India	4.3	3.6	1.1
Pakistan	2.7	2.3	0.3
US	–	3.8	2.7
EU12	6.0	9.5	9.1
Canada	4.1	0.4	0.1
New Zealand	0.1	6.9	0.1
Other	65.4	23.6	14.8

Note: (%) of total textile and clothing imports.

Source: Standard International Trade Classification codes 26, 65 and 84. Data from OECD.

that have helped to foster a political environment in which China-bashing, like the earlier Japan-bashing, becomes acceptable or even desirable.

US protection against new entrants that rock the trade boat

US protection is often structured to protect not only domestic producers but also established suppliers of US imports. If protection is motivated by a 'conservative social 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. US multinational firms quite naturally lobby to maintain the market shares of their offshore 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 US market and thus maintaining their shares as new and highly competitive entrants emerge. A US trade policy goal of protecting established trading partners and the subsidiaries of US multinationals as well as domestic producers can help to explain demonstrated US 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 US 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 post-war period was even more dramatic, with an increase of more than 600 per cent between 1949 and 1959 (Dam 1970: 297). And as Table 6.8 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.

Table 6.8 Percentage change in export values in constant US 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	1978–2002	24	11.9
NIEs*	1966	31	13.1

Note: * Newly industrialized economies of Hong Kong SAR, Korea, Singapore, and Taiwan (Province of China).

Source: Prasad and Rumbaugh 2003: 48.

Growth rates do not tell the whole story, especially when growth is, as in the case of China and early post-war Japan, from a very low level. However, the same picture emerges if penetration of the US market is used as a measure of impact and thus potential pressure for protection. China's share of total US merchandise imports was about 11 per cent in 2003, compared with 10 per cent for Japan and 3 per cent for Korea. But both Japan and Korea had larger shares at their peak: Japan's share of US imports reached 22 per cent in 1986, while even Korea, a much smaller economy, accounted for 4.5 per cent of US imports in the late 1980s (Prasad and Rumbaugh 2003: 48). Yet while the total impact of Chinese exports to the US market has not yet reached the level of Japanese exports at the peak of US–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.

Round up the usual suspects

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

whether a particular country should be treated as a market economy is partly political. Under the terms of the 1999 US–China bilateral agreement, key to China's WTO accession, the US Department of Commerce is authorized to continue using the unfavourable non-market-economy designation to evaluate Chinese dumping until 2014—notwithstanding China's actual speed of transition.[22] In contrast, Russia obtained a market economy designation in 2002 (Pearson 2004: 35).

Trade performance and macroeconomic imbalance

In the 1980s, many US 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 US current account imbalance reflected a domestic macroeconomic imbalance, specifically a large excess of US 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 US–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 US macroeconomic imbalance, as US domestic saving has plummeted thanks to record fiscal deficits.[23] 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 neighbours are negative. Even in trade with the United States, China has become a major importer. Between 2000 and 2003, US exports to China increased 76 per cent while exports to the rest of the world fell 9 per cent (USTR 2004).

One Chinese policy does contribute to a large bilateral trade imbalance with the United States. While the US 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 US markets and US goods more expensive in Chinese markets. This undervaluation means that a larger share of the global US 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. Because a stronger yuan would mean reduced Chinese purchases of dollar assets, it would also put upward pressure on US interest rates; this in turn would affect US macroeconomic conditions by cutting US consumption and investment expenditures, thus reducing the global deficit.[24]

Intellectual property rights and technology transfer

By the 1980s, Japan was no longer exporting low-end textiles and apparel but had become a major US competitor in some high-technology products. Notwithstanding occasional accusations of industrial espionage, Japanese firms acquired advanced US technologies mainly through licensing agreements with US patent holders. But Japanese direct investments in US high-technology firms were subjected to scrutiny by a special federal agency, and at least one proposed Japanese acquisition of a US 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.[25] 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 lacklustre. In one recent high-profile case, General Motors claimed that the Chinese Chery QQ was a knockoff of its own Chevrolet Spark. And in an echo of policy toward Japan in the 1980s, the Committee on Foreign Investment in the United States reviewed the IBM sale of its personal computer business to the Chinese Lenovo Group.

Trade policies in aid of social objectives

US labour 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 labour and environmental standards. In April 2004, the AFL–CIO asked President George W. Bush to punish China under Section 301 of the Trade Act of 1974 for gaining unfair advantage in US markets through repression of workers' rights. Under Section 301, violation of internationally recognized labour rights is an unfair trade practice. According to the complaint, China's labour practices resulted in the loss of as many as 727,000 US factory jobs (Greenhouse and Becker 2004). Although the Bush administration rejected the complaint, it has continued to press China on labour 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 US 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).

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, US economic welfare and trade policy developments abroad. Some are familiar from the US experience with discriminatory trade barriers to imports from Japan and other highly competitive Asian exporters.

Trade diversion

Discriminatory US 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 US 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 US markets rise as a consequence. Global welfare is reduced to the extent that the affected good is now produced at higher cost.[26]

An additional complication arises when Chinese export restrictions are substituted for US 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 US 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 US 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 US 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 US producers and may even speed their exit from US production. As an example, in 1991 US antidumping duties on imported flat-panel displays used in laptop computers raised the costs of US producers relative to their competitors abroad; laptop production accordingly shifted from California and Texas to Japan, Canada, Ireland and Singapore (Irwin 2002: 80).

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 US market to high-end luxury models competing more directly with the products of the US 'big three' auto makers. European producers of smaller cars, who had been losing their share in the US market to Japanese competitors, benefited from trade diversion as they filled the low-end gap in US 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 other low-wage countries such as Bangladesh.

To the extent that the goal of US 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, US 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 established domestic producers nor displacement of their workers.

Effects on global trade flows

US trade policy toward China can have important spill-over effects on other trade flows, thus creating new trade tensions and the global spread of protectionist pressures. US barriers to imports from China could induce both trade *deflection* and trade *depression*. Trade deflection is the tendency of Chinese exporters to react to a new US 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 US 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 actively competing with China in the same markets, the resulting surge in deflected Chinese exports is likely to fuel protectionist (anti-China) sentiment, thus increasing resort to antidumping, safeguards or China-specific safeguard measures. Exporters from other countries—including US firms, which are currently the third most targeted globally in antidumping actions—are also likely to be caught up in the protectionist web. On the other hand, some firms and foreign countries 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 US competition; US firms must already pay a higher price for the same inputs due to the direct effects of US 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.

Increased pressure for China to enter preferential trade agreements

China's expanding trade with the rest of the world, together with its frustration with lack of access to the US market, has increased the pressure to negotiate trade agreements with other countries (Antkiewicz and Whalley 2005). 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 US exporters with 'least favoured nation' status not only in the Chinese market but, perhaps more importantly, in other Asian markets as well.

CONCLUSION

This paper examines recent US policy toward imports from China, highlighting important explicitly and implicitly discriminatory elements. These include the explicitly discriminatory terms of China's WTO accession in 2001 and the 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 US treatment of Japan in the 1980s, in which 'grey-area' measures such as voluntary export restraints were prominent, most US actions toward China are fully consistent with current WTO rules, including the special terms of China's WTO accession. In examining the underlying reasons for targeting 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 US trade with China protect competing domestic industries but also non-Chinese foreign suppliers with an established presence in the US 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 US market. As with earlier discriminatory actions directed primarily at Japan, and with the Multi-Fiber Arrangement that began with discriminatory action directed at Japan and ended with a global network of managed trade, US 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.

NOTES

This paper is a revised version of one prepared for presentation at the PAFTAD 30 conference at the East-West Center in Honolulu, 19–21 February 2005. We are indebted to Peter Drysdale, Peter Petri, Meredith Crowley, and conference participants for helpful discussions and comments, and to Gloria Sheu and Daisuke Nakajima for research assistance. Bown is also indebted to the Brookings Institution for financial support through the 2004–05 Okun–Model Visiting Fellowship in Economic Studies. However, the opinions expressed in this paper are our own and should not be attributed to the Brookings Institution. All remaining errors are our own.

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.

2 Supporters of the 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 increases concentrated in a few products were likely to trigger new trade restrictions in the major importing nations (Dam 1970: 300–1).

3 The European Community system, implemented in 1971, included sensitive imports but limited their volume.

4 The Office of the US 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 US agreements with Israel, Singapore and most recently Australia. So far no one has opted for a more 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 <http://www.wto.org/english/tratop_e/region_e/region_e.htm>; accessed 14 January 2005.

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 US agreements include provisions on enhanced intellectual property protection, labour standards, and environmental protection.

8 Zanardi (2004) presents data indicating that US exporters have also become the target of antidumping as its use has spread beyond the 'traditional' users—United States, Canada, EU, Australia. US 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.

9 The US 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 US Department of Commerce often 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 the US Department of 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 (2006).

10 As we suggest above, the relevant characteristic of Chinese exports to the United States is their rapid growth. Historically US 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 US merchandise imports had risen to 9.4 per cent, and China was the third largest source of US imports, after Canada and Mexico but ahead of Japan.

11 The only country with a rate comparable to Chinese exporters is Canada. This is likely due to peculiarities of bilateral trade between the US and Canada under the Canada–United States Free Trade Agreement (CUSFTA) and then NAFTA.

12 Hansen and Prusa (1996) evaluate the effects of the cumulation rule on the US antidumping process. They estimate that the rule increased the probability of an affirmative injury determination by 20 to 30 per cent and changed the International Trade Commission's decision (from negative to affirmative) for about one-third of cumulated cases.

13 This is true even after taking into account the upward trend in duties levied in affirmative cases. Blonigen (2006) attributes the upward trend largely to the increased discretion available to the US Department of Commerce in dumping determinations.

14 One contributing explanation is that China was not a GATT participant or WTO member until 2001. Thus, it did not have access to GATT and WTO dispute settlement provisions through which to challenge US-imposed antidumping measures. See, for example, Blonigen and Bown (2003).

15 There are other notable differences between antidumping and safeguards use. In addition to the 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).

16 The International Trade Commission distinguishes between 'global' safeguards, i.e., those authorized under Section 201, and 'special' safeguards, including the China safeguard authorized under Section 421 (<http://usitc.gov/trade_remedy/safeguards/index.htm>; accessed 2 June 2005).

17 See §19 USC 2451a of the US 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 a well-established meaning in the international trade literature that is distinct from this phenomenon. See Bown and Crowley (forthcoming).

18 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).

19 For details on the US Department of Commerce's use of the China Textile and Apparel Safeguard, see the OTEXA website <http://www.otexa.ita.doc.gov/Safeguard_intro.htm>; accessed 11 January 2005.

20 With a quota, an amount similar to the tax or tariff revenue goes to the holders of export or import licenses. If exports are restricted by the Chinese government, this 'quota rent' could be captured entirely by China, making the quota case comparable to an export tax in terms of its effects on overall welfare in China and the United States.

21 Based on an analysis of the impact of earlier US PTAs on tariff-binding-reduction negotiations in the Uruguay Round, Limão (2006) concludes that such agreements typically hinder multilateral liberalization.

22 However, US Department of Commerce officials may choose to use local costs. In a 2004 antidumping case, US lawyers representing some Chinese furniture producers successfully argued for the use of local costs, thus obtaining low antidumping margins.

23 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 US saving.

24 A stronger yuan could be only a partial step toward correction of the US global deficit because China accounts for only a fraction of the global deficit and of foreign official purchases of dollars. See Bown *et al.* (2005).

25 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.

26 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 and import tax—beneficial to importers of Chinese products but welfare-reducing overall for both China and the rest of the world.

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7 Does trade lead to a race to the bottom in environmental standards? Another look at the issues

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> Economic growth is not a panacea for environmental quality; indeed, it is not even the main issue. What matters is the content of growth—the composition of inputs (including environmental resources) and outputs (including waste products).
> — Arrow *et al.* (1995)

INTRODUCTION

With no let-up in the pace of globalization and advances in technology, the interrelationship between trade and the environment has become a pressing issue across the globe. Heated discussions abound in various fora involving all sectors: from the streets to civil society, the government, academic and business communities; at the national, bilateral, regional and multilateral levels. It is crucial to understand and address the environmental and sustainability issues that could accompany the escalating trend in trade and globalization.

The issues between trade and environment are found in various areas of concerns. One is in the area of *governance*. The debate here focuses on how international trade has influenced environmental regulations. Has it encouraged a 'race to the bottom' in environmental standards, or 'a race to the top', leading to a convergence of standards at a higher level? Another set of issues relates to *competitiveness*. This is of course linked to the first, with governance affecting competitiveness, and competitiveness issues affecting or influencing the manner of governance. Strict environmental regulation will affect a country's competitive advantage. The question arises whether environmental protection has been more of a disguised form of protectionism. On the other hand, it is also argued that increased trade and growth could eventually lead to better environmental protection. Questions have turned to *North–South issues*, the debate over the disparate implications for the developed and developing countries—whether globalization will lead to 'industrial flight' from the North and the growth of 'pollution havens' (or 'pollution haloes') in the South. Another major concern is with *corporate strategy*, specifically the issues of trans-boundary environmental management and corporate standards applied by transnational corporations (TNCs) in their subsidiaries located in developing countries (Jenkins *et al.* 2002). Finally, we return to the issue of