



# China's “Win-Win” Trade Policy

To contain growing commercial frictions and keep international markets open to its products, China is emphasizing mutual benefit in its foreign policy and dealings with trade partners.

Karen M. Sutter

**A**rise in complaints from major trade partners—from developed markets like the United States and the European Union to developing economies in Asia, Latin America, and Africa—has accompanied China's rise into the ranks of the world's major trading nations. To influence the debate on China's growing trade imbalance with the United States and deflect US pressure for improved market access in China, PRC Premier Wen Jiabao outlined five principles for fair trade and for a bilateral economic partnership at an American Bankers Association luncheon in New York City in December 2003. These principles provide a foundation for a trade policy that appears to be guiding China's approach to a wide range of commercial disputes.

As a result, they offer a useful framework for understanding how China assesses its own trade prospects and how it may respond to future trade challenges.

PRC leaders have traditionally used principles to guide policy—for example, the five principles of peaceful coexistence have served as an important foundation in China's foreign policy since the 1950s. Although China has shown that it can approach issues pragmatically on a case-by-case basis and emphasize selective aspects of principles for its own benefit during negotiations, the principles nonetheless provide an important window into Beijing's current thinking and policy direction. Indeed, Wen's trade principles are an integral component of a broader effort to

refashion China's foreign policy in an era of economic globalization, when its trade relationships are increasingly complex and difficult to balance. Such an approach not only shows that senior PRC leaders recognize the potential magnitude of trade problems and the need to address the grievances of major trade partners, but also reveals the considerable challenges and constraints they face in managing these issues.

ther, China is working to ensure that it will get something in return for market access, even for commitments it has already agreed to implement. For instance, in response to challenges to its poor record of intellectual property (IP) rights enforcement, China is using the "win-win" principle to argue that it should not be burdened with heavy royalties and licensing fees as it tries to catch up in its own technological development. China also argues that countries

## "Thinking broadly, one should take account of the other's interests while pursuing one's own."

### Principle one: Mutual benefit

The most frequently cited of the five principles, the "win-win" concept represents the two basic tenets of China's current economic diplomacy: to assuage concerns about China's rise and to secure important new markets abroad for Chinese companies. This concept alludes to the fourth principle of China's principles of peaceful coexistence—equality and mutual benefit—through which the country has sought to augment its position in global affairs.

The approach is designed to soften concerns about China's economic rise by offering concrete opportunities for trade partners to share in China's growth. For instance, by allowing a targeted set of agricultural products phased-in, tariff-free access under an "early harvest" scheme, China helped calm the fears of Association of Southeast Asian Nations (ASEAN) members, many of which view China as a competitor, and precipitated an ASEAN-China Free-Trade Area (ACFTA) goods agreement. China is also promising investment and trade deals in infrastructure, agriculture, raw materials, energy, and tourism to win over newer trade partners such as Argentina, Australia, Brazil, Nigeria, and South Africa—and to divert attention away from swelling Chinese manufactured exports to those countries. Tourism, often overlooked in international trade, is a top source of foreign exchange for many developing countries, including China. Over the past two years, the China National Tourism Administration has signed approved-destination status agreements with more than 80 countries, which should significantly boost tourism revenue for those countries.

China does not appear to be consistently negotiating in true "win-win" terms, however, and this principle at times seems to provide mere window dressing for Beijing's preferred quid pro quo approach to negotiation, especially regarding market access issues. Faced with pressure from major trade partners to implement World Trade Organization (WTO) commitments and open markets fur-

ther, China is working to ensure that it will get something in return for market access, even for commitments it has already agreed to implement. For instance, in response to challenges to its poor record of intellectual property (IP) rights enforcement, China is using the "win-win" principle to argue that it should not be burdened with heavy royalties and licensing fees as it tries to catch up in its own technological development. China also argues that countries

should promote technology transfers and share the benefits of IP development more equitably so that developing countries can benefit from new technologies. Finally, to protect itself from potential backlash and protectionism abroad, China has been seeking to foster growing economic interdependence to align itself with foreign companies and industries that have benefited from trade with China. Although the United States has become familiar with this strategy over the years, it is new in other parts of the world, such as Australia, Brazil, and South Africa, where economic relations with China have recently deepened. In these countries, diverging commercial interests have split the business communities vis-à-vis China, and potential fault lines on policy toward China are emerging.

### Principle two: Development first

With the guiding mantra of "development first," China seeks to grow its way out of its trade surplus with the United States and other trade partners through increased imports and buying missions—particularly during times of political and commercial tensions. For instance, China timed the announcement of a \$16 billion purchase of US goods for the lead-up to PRC President Hu Jintao's visit to Washington, DC, in April 2006 in an attempt to boost imports from the United States and defuse tensions over the trade imbalance. In another move to increase imports, China last year announced plans to encourage domestic consumption as part of its 11th Five-Year Plan (2006–10). Such a policy, however, requires time-consuming structural adjustments, and, in the meantime, exports will likely remain an important engine of China's economic growth.

Though recent textile agreements with the United States, the European Union, Brazil, and South Africa—under which China agreed to moderate exports in response

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to the threat of safeguards—highlight China's reluctance to voluntarily curb exports, the country has been seeking to reduce export incentives for processing trade and to move up the value chain, emphasizing the quality rather than the quantity of foreign investment. Employment considerations and lobbying by economic zones, however, will likely minimize the impact of these policy changes on China's export volume. China is also attempting to organize certain industries to collectively manage exports, as seen in the textile industry after the Multifiber Arrangement expired at the end of 2004, and negotiate prices, as seen in Beijing's

seafood contained unsafe additives, and after parasites were discovered in Chinese kimchi on the eve of the Asia-Pacific Economic Cooperation summit in November 2005, Beijing also negotiated a new bilateral forum on food standards with South Korea.

These dialogues also allow China time to defuse tensions and, in some instances, delay the implementation of certain measures. In the case of textiles, drawing out talks allowed a higher export baseline—on which quotas are negotiated—to develop; in manufacturing, lengthy negotiations allow enough time for a domestic industry, such as auto manu-

## “Disputes should be addressed in a timely manner through communication and consultation to avoid possible escalation.”

recent efforts to designate Baosteel Group Corp., Ltd. to negotiate global iron ore prices on behalf of China's domestic industry. Calls for early warning export systems, however, appear to be in their infancy, and Chinese companies affected by antidumping actions have tended to undercut each other as much as, or more than, they have cooperated.

Finally, through tax policies and tariffs, China has been boosting domestic production and encouraging localization in manufacturing sectors such as autos and semiconductor equipment at the expense of imports. It has also implemented an antidumping regime that promotes localization in targeted sectors including chemicals, optical fiber, paper, and steel.

### Principle three: Consultative mechanisms

The PRC government is investing heavily in senior-level government-to-government dialogues in an effort to talk its way out of current trade problems and avoid future disputes. PRC officials and scholars in 2004 touted the benefits of raising the status of participation to the vice premier level in the Joint Commission on Commerce and Trade talks to improve relations with the United States. Last year, the PRC Ministry of Commerce appointed the capable and seasoned trade negotiator Gao Hucheng to handle high-profile trade disputes.

China has also established new bilateral and regional cooperation mechanisms with a host of foreign governments, including Argentina, Brazil, the European Union, India, and South Korea, to resolve commercial disputes promptly. A recent agreement to establish a China-ASEAN regional dispute resolution body could help China contain commercial disputes within the region. Following allegations last year—from domestic media and Japan, South Korea, Taiwan, and Hong Kong—that Chinese beer and

facturing or steel, to gain strength before going head to head with global competitors; and in services, such as insurance and telecom, they allow China to delay licensing firms and hold off on removing burdensome investment requirements. The consolidation of trade issues into periodic dialogues allows China to persuade its trade partners to prioritize problems and deal with them in more systematic and manageable ways. This tactic may also help combat the perception that thousands of market access issues remain unresolved.

### Principle four: Equal consultation

Equal consultation, which stresses finding consensus on major issues, echoes an approach outlined by China's late Premier Zhou Enlai that served China well in resolving contentious diplomatic issues. Under this principle, China attempts to focus its trade partners on the benefits of the overall relationship to discourage the use of formal trade remedies, such as sanctions, and defuse trade tensions. In its dealings with the United States, for instance, China has highlighted its ability to help on North Korea and the “war on terror” to demonstrate the importance of the broader bilateral relationship over contentious issues such as the trade imbalance. Under this approach, China has been much more willing since 2003 to acknowledge US concerns about the trade deficit and renminbi revaluation as shared concerns, despite the fact that it has been slow to address them.

### Principle five: No politicization of trade issues

To keep commercial disputes from spilling over into the political arena and deflate the demands of its trade partners, China often appeals to its trade partners to refrain from politicizing trade disputes. China tends to charge countries

with politicization if they push hard on trade disputes in a high-profile manner, indicating that this defensive tactic is an attempt to lower the profile of commercial tensions and prevent them from spoiling the broader political relationship.

PRC leaders have portrayed trade conflicts as “normal” to maintain harmony in the overall relationship with trade partners, as well as to prepare their own citizens for a potential jump in disputes. The strategy’s emphasis on downplaying disputes appears to set a new guideline for PRC trade officials to moderate their responses to the United States on market access issues. This implies that

approach more credence among China’s trade partners. Recent attention to China’s economic push abroad, however, has overlooked Beijing’s Achilles’ heel: Rising trade barriers and disputes could block China’s economic expansion as it moves up the product value chain and challenges industries in developed and developing countries.

Beijing’s failure to follow through on existing commercial promises, and its inability to meet rising expectations for economic opportunity and to balance its own industries’ needs against those of its trade partners, could cool the support of business constituencies that are currently

“The two sides should seek consensus on major issues while reserving differences on minor issues, instead of imposing restrictions or sanctions at every turn.”

China may be less inclined to retaliate directly in response to the threat of trade actions and may acquiesce to priority trade demands under intense pressure to avoid the spillover of trade disputes into other areas of the relationship. For instance, despite its hardline tactics and strong rhetoric on textile trade, China has negotiated textile restraint agreements with major trade partners. Similarly, faced with the threat of WTO action, China has backed down from using tax rebate and tariff policies to boost localization of its semiconductor and auto sectors, respectively. Nevertheless, PRC negotiators often employ brinkmanship tactics to give away as little as possible and to mask China’s readiness to accede to its partners’ demands.

Since joining the WTO, China has taken care to impose WTO-compatible measures in trade disputes rather than to retaliate in kind as it did against South Korean and Japanese safeguard actions in the late 1990s. For example, instead of a tit-for-tat response to the failure of China National Offshore Oil Corp.’s bid for Unocal Corp., China began discussing the creation of a domestic review committee for outbound investment. China has also worked with Hong Kong, Taiwan, Japan, and South Korea to assuage concerns about food safety in response to recent scares and is working to ensure that Chinese products meet new EU environmental requirements for electronics and chemicals.

## Prospects

The successful implementation of Wen’s five principles ultimately depends on China’s continued economic growth and demand for foreign goods and services. The specific commercial benefits China brings to the table, such as new trade and investment opportunities for southern Europe and Latin America and strong demand from China’s raw materials and commodities sectors, have given Wen’s trade

advocating for improved relations with China and keeping trade tensions in check.

Beijing has had to deal with an image problem in the developing world as it grabs market share from countries with which it simultaneously seeks to build good relations, especially in Latin America and Africa. China’s delicate position vis-à-vis the developing world is one of several factors that has made it difficult for China to push for developing countries to lower their trade barriers during the Doha round of trade negotiations, though this is an area in which China’s greatest export opportunities lie. In particular, China is likely concerned that forceful advocacy for developing countries to reduce barriers could unleash pent up concerns about how China’s export competitiveness is challenging developing countries at home and in third markets.

Even in countries that have benefited from their economic relationship with China, many people believe that China benefits more, while those that have not benefited feel threatened by growing Chinese exports of manufactured goods. For example, although Thailand’s agricultural exports to China are growing, Chinese exports to Thailand are growing just as fast. Thai press reports indicate that farmers in northern Thailand believe China benefits more from ACFTA’s early harvest program than Thailand. In countries publicly debating whether to establish FTAs with China, such as South Africa and Australia, their respective textile and auto sectors are expressing concerns about how to best structure a beneficial trade relationship with China.

Whether China will succeed in mitigating trade conflicts remains to be seen. Like other countries, China has a small trade negotiation team that is increasingly stretched across a wide range of issue areas, and as the number and scope of China’s trade negotiations increase, it will be more difficult

# Commentary

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to keep up with the demands of these relationships. China's preference for conceding as little as possible in negotiations may also hinder its ability to contain disputes, especially if it miscalculates the political pressures involved. China also has pockets of domestic resistance to a trade approach that not only seeks to accommodate the interests of its trade partners, but also threatens industrial policies and export platforms that benefit constituents at home (see p.42). PRC Minister of Commerce Bo Xilai has shown a willingness to play to domestic constituencies such as the textile industry, and the PRC National Development and Reform Commission has recently responded to industry concerns about growing foreign strength in manufacturing sectors such as auto and construction equipment.

Despite the potential limits of the “win-win” approach, China will likely keep using these five trade principles to soften opposition to China's economic rise and prevent commercial disputes from spilling over into the political arena. China's growth depends heavily on its exports and requires strong political relationships with major developed and developing countries. Recognizing the limits of its ability to ward off future safeguard and antidumping actions, China will likely try to avoid a broad-based global attack on its trade practices. For China, the road ahead could be rocky, however, and the pressures on managing its economic relations will be intense given the extent of its commercial exposure and the steady demands on Beijing to translate promises into reality. 完