

IRET Congressional Advisory

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THE CHINA TRADE QUESTION

In its WTO negotiations with the United States, China agreed to a significant reduction in tariff and investment barriers against U.S. businesses. When a higher tariff country lowers its rates and repeals other trade and investment restrictions against a trading partner, the trading partner clearly benefits, as do the consumers in the liberalizing country.

China will become a member of the World Trade Organization later this year regardless of the U.S. vote on permanent normal trade relations (PNTR).

Member nations of the WTO are required to grant each other permanent normal trading status. If the United States does not grant China PNTR status, China will not be obligated to accord U.S. products or businesses equal treatment with products or businesses from China or third countries.

Consequently, failure to grant China PNTR would put U.S. businesses and labor at a competitive disadvantage with respect to the rest of the

world in dealing with China. U.S. exports to China and opportunities to invest in China would be hurt.

Curtailed U.S. investment opportunities in China would mean fewer exports of services and semi-finished products and parts to subsidiaries and partners in China, and less royalty income from licensing technology to Chinese enterprises. American workers and shareholders would suffer.

If PNTR is granted, and China lowers its trade barriers, some companies that might otherwise find it necessary to invest and produce in China for the Chinese market may find it possible to service China from U.S. production sites.

Attacks on China's WTO application and the PNTR effort by environmentalists are ill-advised. The richer a society, the more it is willing to spend on caring for the environment. It is the rich nations, not the poor ones, that have the best environmental records. Boosting incomes in the less developed world by slashing trade barriers would be a strong plus for the world environment.

Trade reduces the chance for international conflict. Trade is an enterprise conducted by people and businesses, not governments. When governments allow trade to flourish among people and businesses, economic links are formed that bring people together in a common cause and reduce the chances of conflict.

There is no sound technical, economic, or environmental argument against expanding trade with China or any other country.

Stephen J. Entin
President and Executive Director

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Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.