

Political Economy of US Trade Policy towards China

Bibo Liang *

Abstract

The trade relationship between China and the USA has become increasingly important to the economies of both countries. The recent trade conflicts and friction between China and the USA constitute obstacles in the way of US–Chinese bilateral trade relationship development, which is of considerable concern to both countries. Through an in-depth analysis of the political process of US trade policy towards China, the present paper identifies the important determinants of US trade policy towards China. The influence of US trade policy on the trade relationship between the USA and China is assessed and implications for the trade relationship between the USA and China are discussed.

Key words: trade policy, trade relation, political economy

JEL codes: F10, F11, F13, F14

I. Introduction

The trade relationship between China and the USA has become a big concern for both sides, not only because of the enormous amount of trade between the two countries, but also because of certain problems generating from the trade. Since 2001, US exports to China have grown five times faster than they have to the rest of the world, and China has developed from the ninth to the fourth biggest export market for the USA. US exports to China increased by an impressive 20 percent in 2005, building on 22 percent growth in 2004, making China the fastest growing export market among the USA's major trading partners (USTR, 2006).

* Bibo Liang, Associate Professor, Economics School of Guangdong University of Business Studies, Guangzhou, China. Email: bliang2@wisc.edu. This paper was completed during the author's stay at the University of Denver as a visiting scholar. The author hereby expresses his gratitude to Dr Peter Sai-Wing Ho, Chair of the Department of Economics of University of Denver, for his valuable suggestions and comments on the first draft of this paper.

China has become the world's third-largest exporter and third-largest importer, an economic power importing raw materials from all the world's regions, drawing vast amounts of foreign investment and changing the economic landscape around the world, especially in Asia.

Concerns exist in the USA regarding trade between China and the USA, despite the positive effects of such trade. Within US growing internal debate about the influence of China on the US economy, the biggest concern is the bilateral deficit, which amounted to US\$162bn in 2004 and US\$201bn in 2005 according to US statistics (see Tables 1 and 2). However, the statistics from China differ greatly, with the bilateral deficit amount being \$114bn for 2005. According to the 2006 trade report by the US Trade Representative Office (USTR, 2006), the specific concerns regarding the trade include: continued Chinese barriers to some US exports; failure to protect intellectual property rights; failure to protect labor rights and to enforce labor laws and standards; unreported and extensive government subsidies and preferences for its own industries; environmental concerns; spotty

Table 1. US Trade with China: 2006

Month	Exports (US\$m)	Imports (US\$m)	Balance (US\$m)
January 2006	3494.1	21 404.9	-17 910.9
February 2006	4087.0	17 926.5	-13 839.5
March 2006	4955.4	20 526.1	-15 570.7
April 2006	4343.7	21 377.2	-17 033.5
May 2006	4542.0	22 253.6	-17 711.6
June 2006	4347.0	24 052.4	-19 705.4
July 2006	5064.6	24 639.6	-19 574.9
Total	30 833.8	152 180.4	-121 346.5

Source: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, DC. (2006).

Table 2. US Trade with China: 2005

Month	Exports (US\$m)	Imports (US\$m)	Balance (US\$m)
January 2005	2609.3	17 885.8	-15 276.5
February 2005	3108.1	16 937.6	-13 829.5
March 2005	3336.4	16 184.9	-12 848.6
April 2005	3371.8	18 148.5	-14 776.6
May 2005	3236.8	19 053.2	-15 816.4
June 2005	3430.9	20 976.7	-17 545.8
July 2005	3631.6	21 272.7	-17 641.1
August 2005	3888.7	22 421.3	-18 532.6
September 2005	3209.1	23 294.5	-20 085.4
October 2005	3947.6	24 382.9	-20 435.3
November 2005	3890.0	22 426.1	-18 536.1
December 2005	4265.0	20 486.0	-16 221.0
TOTAL	41 925.3	243 470.1	-201 544.8

Source: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, DC. (2006).

Table 3. US Trade Balance with China from 1995 to 2005 (US\$bn)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
US exports	11.8	12.0	12.8	14.3	13.1	16.3	19.2	22.1	28.4	34.7	41.8
Percentage change	26.9	1.7	6.7	10.9	-8.0	24.4	18.3	14.6	28.5	22.2	20.5
US imports	45.6	51.5	62.6	71.2	81.8	100.0	102.3	125.2	152.4	196.7	243.5
Percentage change	17.5	13.0	21.5	13.8	14.9	22.3	2.2	22.4	21.7	29.1	23.8
Total	57.4	63.5	75.4	85.5	94.9	116.3	121.5	147.3	180.8	231.4	285.3
Percentage change	19.3	10.6	18.7	13.4	11.0	22.6	4.5	21.2	22.7	28.0	23.3
US balance	-33.8	-39.5	-49.8	-56.9	-68.7	-83.7	-83.1	-103.1	-124.0	-162.0	-201.7

Sources: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, DC. (2006).

Note: US exports reported on FAS basis; imports on a general customs value, CIF basis.

compliance with international trade rules; and a large and growing imbalance in the bilateral trade flows (see Table 3), resulting in huge trade deficits. Some Americans believe that Chinese barriers to US exports contribute to the deficit and are inconsistent with China's multilateral and bilateral commitments. The Chinese exchange rate mechanism also poses a concern to the US Government, who believes that the existing exchange mechanism has created an advantage for China in trade with the USA. Therefore, the US Government has insisted that China swiftly carry out the commitment made in the announcement of its new exchange rate mechanism on 21 July 2005 and the Joint Economic Committee statement of 17 October 2005 to move to a market-based, flexible exchange rate mechanism regime.

It can be observed that US trade policy towards China has been undergoing a shift since China's entry into WTO. However, what has affected US trade policy towards China? What are the main determinants of US trade policy towards China? What is the effect of the shift of US trade policy towards China on the trade relations between the two countries? With these questions in mind, the present paper aims to identify the main determinants of US trade policy towards China by analyzing the political process of the determination of such policies. The paper also attempts to predict the dynamic tendency of the trade relations between China and the USA to determine the real sources or hidden causes for the trade frictions between the two countries. Concluding remarks are made with regard to the characteristics of US trade policy towards China and its implications to Chinese-US trade relations.

II. US Trade Policy Formulation: Distinctive Characteristics of the US Political and Economic Environment

Although sharing much in common with many other developed countries in the world in terms of trade policy-making, the USA's trade policy has its own characteristics.

First, shared political authority imposes a unique balancing act in formulating and administering US trade policy.

Next, compared to most other developed countries, imports and exports represent a relatively small percentage of US GDP. Despite their large absolute size, imports and exports do not affect total economic activity in the USA as they do in China, Canada, Germany and Japan.

Exports accounted for 29 percent of GDP in Germany and 39 percent in Japan in 2000. The comparable figure for China was 30 percent in 2003, where imports and exports together accounted for almost 60 percent of GDP that year.¹

Unlike in most other countries, US trade policy-makers do not view trade policy as a tool for use in achieving the larger goals of domestic industrial policy. In the case of trade frictions with China, US policy-makers are more likely to act politically rather than economically, whereas China insists that the trade issue between China and US should not be politicized, and a non-politicized solution should be introduced to the trade frictions.

Since World War II, the USA has been the only country that can pay for all its import needs using its own currency. Other countries must primarily rely on exports to earn the foreign exchange necessary to pay for imports. Unlike other countries, the USA does not bother to balance the payment between imports and exports. Therefore, in the USA, the job effects of trade are primarily addressed rather than other issues when considering trade with China, which is, of course, also due to the lobbying of many interest groups (Mankiw, 2003).

Another characteristic of US trade policy is its disconnection from domestic economic policy (more disconnected than in most countries). Because US trade policies are less proactive and less comprehensive than those found in many other countries, they mirror the relatively low-intensive approach taken by the US Government toward the larger issue of domestic economic policy planning and intervention (Cohen, 2000).

III. Political Process of Determination of US Trade Policy

The political process by which a trade policy is determined often has an impact on the nature of that policy. Basically, two branches of government are directly involved in the process: executive branch and legislative branch. According to the US Constitution, the legislative branch has a direct or indirect say in virtually every politically significant US trade policy

¹ Data source: US International Commission, German Embassy in Washington DC, and China Statistics Bureau. However, the China Statistics Bureau admitted that the trade volume expressed as percentage of GDP was exaggerated in China due to many reasons and errors in statistics.

decision. No administration can alter import barriers, restrict exports, initiate export promotion programs, or pay the salaries of trade negotiators without statutory authority from Congress. Article I, Section 8 of the US Constitution empowers Congress “to regulate commerce with foreign nations”. This provision has been interpreted throughout US history as meaning that the legislative branch is unequivocally in charge of setting the course of US trade policy. After 1930, Congress allocated considerable authority in terms of trade policy to the executive branch, due to the fact that they would better be able to keep in check the pressure from special interest groups for higher imports barriers. According to economic theory “reduced barriers of trade maximize efficiency and provide the greatest goods for the greatest numbers” (Cohen *et al.*, 2003). However, the US Congress has not abdicated control over trade policy. Rather, it has “subcontracted” its authority to the executive branch to adjust import barriers and to impose export control. The executive branch is not an independent actor in trade policy determination for two reasons. First, it must comply with the detailed directions of statutes passed by Congress. Second, the executive branch must periodically seek the renewal of existing authority as well as the passage of new authority by Congress in connection with international trade negotiation.²

Three administrative entities within the executive branch are responsible for trade policy: the executive office of the President, the line departments and agencies, and interagency coordinating groups. The President is formally in charge of all three realms, but this does not necessarily mean that the President has become intricately involved in all trade policy determination processes. Usually, direct presidential involvement in trade policy-making comes late in the process and consists of approving a cabinet-level recommendation or arbitrating relatively rare cabinet stalemates.

The judicial branch has been involved little in the US trade policy-making process. The Trade Act of 1974 facilitated court appeals by US corporations and unions whose petitions for import relief from “unfair” foreign competition had been rejected by the executive branch. Legislation passed in 1980 created the US Court of International Trade by expanding the power and jurisdiction of US Customs Court. The new court provides a comprehensive system for judicial review of civil actions arising from imports transactions and federal statutes affecting international trade. The Court of International Trade is now playing a more and more important role with the increase in frequency of trade frictions between the USA and China. The Supreme Court settles those contentious trade disputes, while the federal courts have periodically ruled state laws affecting international commerce to be

² This kind of authority was known as “Fast Track Authority”, but is now known as the “Trade Promotion Authority”. Bill Clinton failed in gaining the authority from the Congress, but George W. Bush succeeded in gaining the authority right after the beginning of his second term of office.

illegal (Cohen, 2000).

Throughout the history of US trade policy-making, the struggle and conflict between Congress and the executive branch can be clearly observed. To this day, Congress has successfully cultivated the institutional image of “an ardent protectionist” even as it has granted a long succession requests for new authority to reduce US import barriers on a reciprocal basis. Congress has been playing the role of “bad cop” whereas the White House has been playing the role of “good cop” in US trade relations with China. However, there are cases when the two branches act together. More often than not, trade policies turn out to be compromised, after series of bargaining and interaction between Congress and the Administration.

What adds to the complexity of the process of US trade policy-making is the involvement of the private sector. In the minds of US citizens, trade policy is conducted more on behalf of the private sector than on behalf of national security, so nobody asserts that the government should make trade policy in isolation. There is widespread consensus by most Americans that trade policy-makers should pay careful, yet detached attention to what spokespersons for hundreds of different special interests are recommending.

IV. Identifying the Major Determinants of US Trade Policy towards China

Many factors are involved in the determination of US trade policy toward China. The main purpose of this section is to illustrate the influence of some important factors in the determination of US trade policy toward China at a cross-industry or overall level. These factors are chosen because they have more weight than others in influencing the policy. In terms of econometrics, they are variables that bear bigger coefficients than others.

Most of the existing models propose the following variables as the main determinants of trade policy: industry size, employment, concentration ratio, levels of imports, and changes in the levels of imports (Gawande and Krishna, 2001). Indeed, those variables are very important determinants of trade policy, but only at industry level. Such theoretical models try to link certain variables to the determination of trade policy at industry level, without consideration of any specific country as a trade partner. When referring to the determination of US trade policy toward China at the cross-industry level or national level, some new variables have to be taken into consideration. These variables are largely ignored in the existing models.

1. Political Strategy

Although it cannot be claimed for certain that political strategy is absolutely the top consideration when deciding trade policy towards China, it is evident that political factors are often deemed more important than economic concerns.

US trade policy towards China concentrates on many goals, not all of them compatible with one another. When there are conflicts among those goals, more often than not, political goals are put on the top of the list at the expense of economic goals and other interests. A typical example of a “political-goal oriented principle” in deciding trade policy with China is Chinese acquisition of US companies. To many policy-makers in the USA, the efforts by Chinese companies with substantial state ownership to make bids to take over major US companies constitute a risk to US national security interests. Some Americans believe that the Chinese Government has a plan to direct companies under its control to purchase major international companies to obtain their brand names and, therefore, become global companies. Another US concern is that China’s use of state-owned energy companies to gain energy supplies through the acquisition of US companies could lead to a restriction of US access to energy and drive up prices. As a result of those concerns by US policy-makers, those acquisitions have been subject to many legal obstacles, coming mainly from Congress, although many believe, from an economic perspective, that both sides could directly benefit a great deal from such acquisitions. The acquisition of US companies by Chinese companies will continue to be a sensitive issue as long as the political-goal oriented principle prevails.

Sometimes the above principle is also observed in political transactions with China. During the Gulf War, the USA released restrictions on trade with China to gain the support from China in the war against Iraq. Before the Iraqi War, the USA “bought” China’s non-opposition to its military action in Iraq by promising to implement a “more active trade policy towards China” despite the opposition from some interest groups. Another example of this principle in trade policy determination towards China is the linking of human rights with trade issues. Although President Bill Clinton had declared that policies linking human rights with trade issues had reached the end of its usefulness and it was time to take a new path to achieve US objectives, his successor does not seem to have taken “a new path”.

2. Influences of Special Interest Groups

The mechanism and logic of the influence of the special interest groups on US trade policy have been highlighted very successfully by the existing theoretical models (Gawande and Krishna, 2001). Sometimes US trade policy towards China is referred to as interest groups oriented, indicating that the actual US trade policy towards China that is eventually

implemented is the outcome of the struggle and bargaining between different interest groups and branches of government.

Interest groups play a prominent political role in all representative democratic countries. By all indications, the participation of interest groups in the trade policy process has been growing in leaps and bounds in the USA. The number of organizations that engage representatives in Washington and other capital cities in the USA has exploded since the beginning of this century. So too has the number of registered lobbyists. Spending on lobbying has grown in the USA, as has the total amount of campaign contributions by Political Action Committees. Political advertising appears to be on the rise, and the media report ever more frequently on the alleged influence of the special interest groups and on the need for campaign reform. "It seems critical that economists and political scientists come to understand better the role that interest groups play in the policy making process" (Grossman and Helpman, 2002).

For years, Boeing Corporation and General Electricals have been stable supporters for a more active trade policy towards China, from which they have gained huge benefits, and they are playing "an active role" in US trade policy process towards China. Boeing Corporation predicts that China will be the largest market for commercial air travel outside the USA for the next 20 years; during this period, China will purchase 2300 aircraft valued at US\$183bn (Morrison, 2005). On 28 January 2005, Boeing signed a preliminary agreement with China for the sale of 60 planes valued at US\$7.2bn. It is very clear to Americans that China could turn to European Airbus Corporation for the same transaction if access to Boeing is "politically blocked". Of course, there are still quite a lot of US firms that benefit from extended trade with China, but the importance of their roles in the trade policy process differ from firm to firm. Those groups (such as manufacturing industries) who allege that their industries are seriously hurt by imports from China are also acting upon a similar logic in an opposite direction, and the increasing barriers to Chinese imports owe very much to their lobbying.

Some non-commercial groups are also likely to influence US trade policy towards China, but their influence is secondary as compared to those of commercial groups. Those non-commercial groups include not-for-profit organizations, political organizations and the media. More often than not, these non-commercial groups play the role of "opposition party" in the political process of US trade policy towards China, insisting that the USA should take a tougher trade policy towards China. The criticism of trade policy in relation to China from these non-commercial groups coincides with that of Congress, while the petition for a "more active trade policy" towards China from commercial interest groups corresponds with intentions of the executive branch of the government.

3. External Constraints to US Trade Policy towards China

For years, theoretical models have emphasized the “internal variables” (or “endogenous variables” as termed in econometrics) while applying less stress to “external variables” (or “exogenous variables” in econometric terms) with regard to the determination of trade policy (Ball, 1967; Cohen, 1968; Caves, 1976; Corden, 1974; Constantopoulos, 1974; Fieleke, 1976; Larvergne, 1983; Pincus, 1975).

Basically, there exist three types of external constraints to US trade policy towards China; namely, multilateral-trade regime constraint, regional-regime constraint and bilateral-trade relationship constraint.

The so-called multilateral-trade regime refers to the multilateral trade system and framework of different countries under the principles of the WTO, and is also known as the WTO-guided system.

The second significant external constraint to US trade policy towards China is the mechanism of the Asia-Pacific Economic Cooperation (APEC). In practice, the USA has been trying to push APEC into a formal regional economic organization requiring all its members to bear legal binding obligations, but China and some other members of developing countries would prefer to maintain APEC’s present status for the time being, so that they can have a transitional period of time to adjust their economic regimes for better compatibility with that of the developed economies in APEC before a substantial change is made to the legal status of APEC. Compared to that of the multilateral trade regimes, the APEC constraint to US trade policy towards China is apparently “softer” in degree.

The last external constraint to US trade policy towards China is bilateral constraint, consisting mainly of a series of contracts and agreements of trade signed between China and the USA. Apparently, this constraint is “harder” than the previous one to USA, but still, the USA can make important amendments to those contracts and agreements in due time according to the dynamic situation.

The existence of the external constraints to the USA sets a framework within which US trade policy towards China is determined.

4. Influence of the Strategic Actions from China: A Game Perspective

Trade policy is, to some extent, the equilibrium of a game between two or more countries; therefore, China’s strategic actions are bound to influence the determination of US trade policy towards China. When we say that the trade policy of a country under a regime of representative democracy is the result or outcome of the struggle and bargaining among different interest groups and branches of the government, we are actually ignoring the

influence of the strategic actions from its trade partner. Since China's entry into the WTO, the USA has placed more pressure on China to ensure its total "compliance with the international trade rule" (USTR, 2006), but it is very clear to US trade policy-makers that there is a limit to this approach. US trade policy-makers are actually very cautious when using the "stick policy" towards China,³ which has proved to be unsuccessful in the past. Specifically, the USA has to make sure that what it does will not totally break the tie with China. When the USA emphasizes the great dependence of Chinese imports on the US market, China also stresses the reliance of US consumers on the products made in China. As a matter of fact, there exists an economic interdependence between the two countries, although some US congressmen are reluctant to admit this fact. In the Report of 2006 by USTR, it is stressed in regards to the importance of the political and economic interaction between China and US that: "China's integration into the global economy and progressive embrace of market principles have been encouraged by more than 25 years of US political and economic engagement, pursued on a largely bipartisan basis across administrations. These developments have helped broaden and deepen the relationship between United States and China at all levels, to the benefit of both countries. The trade relationship between our two countries has become increasingly important to the economies of both our countries."

A brief history of trade negotiations between the two countries since 1979 shows that the equilibrium of cooperation is more "stable" than that of confrontation, indicating that cooperation is the preferred option for both parties at the end of the game in most cases. The implication of the game equilibrium also implies that cooperation leads to benefits to both countries while confrontation results in losses to both. It is difficult to verify which side has benefited more from the cooperation. Up to now, empirical studies have come up with different results.

5. Business Cycle/Political Cycle versus US Trade Policy towards China

There is a strong link between business cycles and US trade policy towards China. The term "business cycle" refers to the joint time series behavior of a wide range of economic variables, such as prices, output, employment, consumption and investment. The balance

³ "Stick policy" refers to a tough policy adopted by the USA towards a certain country, where a threat to take retaliatory actions, including economic sanction, embargo, or even military action against the target country, is taken if it "does not behave properly". In contrast, "carrot policy" refers to a "soft" policy taken by the US Government to invite friendly feedback from a target country by promising a "benefit" in return. More often than not, the US uses both types of policy in practice.

of trade is likely to differ across the business cycle.

In export-led growth, the balance of trade will improve during an economic expansion. However, with domestic demand-led growth, the trade balance will worsen at the same stage in the business cycle. The dynamics of US trade balance accords with the latter case, which indicates that the US economy is demand-led, with trade volume accounting for a very small percentage of its total GDP. The effect of business cycles on the trade balance in the USA since the 1970s is dramatic. In each recessionary period, the trade balance improved temporarily as demand for imports slackened. Each time the economy recovered, the trade balance worsened again. When the economy began its recovery in 1992–1993, imports rose and the trade balance quickly deteriorated. Later, when the USA became the fastest growing major economy during the period of 1995–2000, it experienced a record-breaking trade deficit of US\$452bn.⁴

While improving the US trade balance, an economic recession also reduces its demand for foreign products with the decline in consumption and the growth of the unemployment rate. During an economic recession, the conflicts between labor unions and administrations in enterprises intensify, as so do the conflicts between the executive and legislative branches of US Government.

US trade policy towards China fluctuates along with the fluctuation of the business cycle, characterized by a higher frequency of trade frictions with China during a recession period of the cycle. In response to the business cycle, the frequency of trade frictions between the USA and China becomes lower when the US economy is booming.

The lobbying of interest groups in the US takes place in accordance with the business cycle. There are more lobbying activities during an economic recession, which increase the demand for tougher trade policies towards China. When the trade deficit with China increases at an increasing rate, the lobbying activities also increase. The huge trade deficit with China has created a good excuse for the USA to attach some pre-conditions⁵ to the trade relations with China, which it would not have done if the trade deficit with China were not that large.

Interestingly, most of the trade agreements between China and the USA have been signed during the US economy's boom periods, which explains much of the fluctuation in US trade policy towards China.

⁴ Data source: US Department of Commerce, Bureau of Economic Analysis, New Release of June 21, 2001. Also see Stephen D. Cohen, Robert A. Blacker and Peter D. Whitney, *Fundamentals of US Foreign Trade Policy*, Second Edition, Boulder, Colorado: Westview Press, 2003. pp.82-83.

⁵ For example, the linking of the human rights with the trade issue as well as the political system with the trade issue.

Hence, there are both positive and negative effects of an economic recession on US trade policy towards China. When the US trade deficit with China greatly improves due to an economic recession, the negative effect of the economic recession on US trade policy towards China is reduced.

Although the term “business cycle” is extensively used in economics, the term “political cycle” does not appear as much in economics literature. Here the term “political cycle” refers to the cyclical change in US foreign policy or trade policy towards other countries. The US political cycle does not coincide with its business cycle. Instead, the former takes the event of general election as its cyclical point, with the event as the cause of and reason for the change in policy. Before each general election, opposition candidates promise constituents tougher policies towards China, while criticizing their rivals for not implementing tougher policies towards China. For many years, anti-China policy or strategies have gained more support from US constituents than objection, and those who seek active policies towards China are subject to fierce criticism (Wang, 2001). The political cycle in the USA reduces the effects of the business cycle on trade policy towards China. The business cycle has also reduced the “politically cyclical characteristics” of US trade policy towards China to some degree.

The above are important factors that have been ignored in most of the theoretical models aimed at exploring the determination of US trade policy. It is very clear that there are more determinants in the political process of US trade policy towards China, and all determinants work simultaneously to shape trade policy. The present research will naturally lead to an important amendment to the existing models, most of which have been built with one factor only. Unlike most of the exiting models, which emphasize only one important factor in the determination of US trade policy, the above analysis shows the complicated process of the determination of US trade policy towards China with many variables functioning simultaneously. However, those factors do not function equally in the determination process of the policy, and each of those factors has a different weight. Through observation, it is evident some factors are more important than others in the determination of US trade policy towards China. Here, “political strategy” and “interest groups” are found to be the most important of all variables.

The determination of US trade policy towards China can be rephrased using the following function:

$$Y=a + bX_1 + cX_2 + dX_3 + eX_4 + fX_5 + \mu \quad (1)$$

In the above equation, Y indexes (represents) US trade policy towards China, X_1 denotes political strategy, X_2 denotes influence of interest groups, X_3 denotes external constraints,

X_4 denotes strategic actions from China, and X_5 denotes the business and political cycles, with a being a constant representing the “status quo” trade policy before the influence of the explanatory variables, and μ being an error term reflecting the influence of other possible variables that have not been taken into the equation. In other words, US trade policy is a function of US political strategy, influence of the interest groups, external constraints, strategic actions from China, and US business and political cycles. Those variables work in different ways to co-determine US trade policy towards China. The difference in importance of each variable is shown by the coefficients on the explanatory variables, and in most cases, what we expect is that $a \neq b \neq c \neq d \neq e \neq f \neq 0$.

V. Concluding Remarks

The complicated process of the determination of US trade policy towards China consists of many political and economic factors, both at home and abroad, which work simultaneously to co-determine trade policy towards China. The process of the determination of trade policies in a complicated and unique context has also created unique aspects and characteristics of US trade policy towards China.

On the whole, US trade policy towards China is a balance between political necessity and economic interest of different groups, influenced by the business cycle, the political cycle and China’s strategic actions. China’s rise as a global economic power constitutes an opportunity as well as a challenge to the USA. Some Americans regard the rise of China more as an opportunity than a challenge, but this view is not necessarily shared by policy-makers in the USA.

National interest or political strategy always comes before any other factor in the determination of US trade policy towards China, indicating the potential for trade conflicts between China and the USA in the coming years, because China is still “far from being a friend of Americans” (Cohen *et al.*, 2003), and even the theoretical concept of “strategic partner” created and formally used by the top leaders of the two countries is actually in doubt.

The lobbying activities of interest groups have made US trade policy towards China somewhat interest groups-oriented. A reasonable prediction is that when US manufacturing industries diminish to a certain degree, the trade frictions between the USA and China will also decrease, but that is not something we are going to see soon.

The influence of the political and business cycles on US trade policy towards China is interesting. The influence of political cycles is easier to predict, whereas that of the business cycle is difficult to estimate. The political cycle has a fixed length of 4 years, with the

general election as its starting point as well as its ending point. Gaining votes to win the election becomes the main aim of trade policy-makers. In contrast, the business cycle is unstable, and the length of a cycle varies. Therefore, its influence on policy is also unstable, making the estimation of its influence more difficult. The influence of the political cycle is temporary, because policies will get back on track soon after an election, whereas the influence of the business cycle on a policy is “deeper”, depending on the total length of the cycle and the length of each period within a cycle. This conclusion strongly indicates that under the present political system, expecting too much from a newly-elected president and his administration in terms of a more active trade policy or, alternatively, a tougher policy towards China is politically naive. We do observe some differences between different administrations with regard to trade policy towards China, but the differences are very often a result of other causes.

Smooth trade relations between China and the USA are not expected given the present context, and there might be times when trade relations between the two countries deteriorate by a large extent, but the trade relations will improve again in due time in a direction that is in the economic interests of both countries. The maintaining of the trade relationship between China and US relies greatly on the interdependence of the two economies as well as the three external constraints mentioned in the present paper.

The new emphasis on “reciprocity” in US trade policy towards China after China’s entry into the WTO beckons certain re-adjustment, and it also explains the higher frequency of trade frictions at the present time. It is predicted here that more trade frictions are to occur in the coming years, but they will draw less and less attention from both US and Chinese Governments and their people because both countries will come to realize that trade frictions are inevitable as long as the huge differences in economic structure as well as in trade policies exist between the two countries.

To sum up, the US trade policy towards China is not in accordance with Pareto Optimum, because trade policy is not set by those who seek to maximize economic efficiency.

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