

Summary: The U.S. public wants Washington to ratchet up economic pressure on Beijing, but history suggests that there are geo-political constraints to doing so. It is reasonable to assume that Obama will continue to press China on economic and trade issues, especially when buttressed by the support of the U.S. public. The likely pillars of the Obama administration's economic policy toward China in its second term will be more complaints about Chinese subsidies and trade practices filed with the WTO and the pursuit of trade agreements that notably do not include China. The unknowable factor in future U.S.-China economic relations is the political impact of what is expected to be growing Chinese foreign direct investment in the United States.

U.S.-China Economic Relations in the Wake of the U.S. Election

By Bruce Stokes

The 2012 U.S. presidential election was marked by the two candidates — the incumbent Democrat Barack Obama and the Republican challenger Mitt Romney — competing over who would be tougher on China if elected. What does Obama's return to the White House portend for U.S.-China economic relations? The U.S. public wants Washington to ratchet up the pressure on Beijing, but history suggests that there are geo-political constraints to doing so.

European, U.S., and Chinese observers of the U.S.-China relationship may wonder whether commitments made in the heat of a presidential election really matter once a candidate becomes president. In general, they do. One of President Obama's unbroken pledges in his first term was to be tougher on China than George W. Bush, and over the last four years the Obama administration has filed more trade cases against China than his predecessor.

Thus it is reasonable to assume that Obama will continue to press China on economic and trade issues, especially when buttressed by the support of the U.S. public. However, experi-

ence suggests a more cautionary conclusion. For at least the last three decades, whenever the U.S. position as the world's economic and strategic hegemon has been threatened, U.S. presidents and presidential candidates have promised to face down the foreign challenger: first Japan and now China.

As a candidate in 1992, Bill Clinton vowed to be tougher on Japan and China than his predecessor George H.W. Bush. But in 1994, on the verge of filing a major trade case against Japanese auto policy, with the possibility such a move would destabilize financial markets, Clinton backed down. Similarly, after campaigning against the "butchers of Beijing" and withholding most favored nation trading status from China in an attempt to leverage a better human rights record, Clinton relented and eventually championed China's entry into the World Trade Organization. His successor, George W. Bush, criticized Clinton for treating China as a "strategic partner" and then proceeded to treat China as a "responsible stakeholder."

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When campaign promises clash with the demands of governing, the latter often prevail. But this does not mean that the economic and political context of the current U.S.-China relationship can be ignored. The bilateral trade relationship remains a destabilizing factor, fostering political support for confrontational policies, with the possibility that China's growing foreign investment in the United States could serve to either aggravate tensions or ameliorate them over time.

By more than two-to-one (65% to 29%), Americans see relations with China as good, according to a 2012 Pew Global Attitudes survey. And by about four-to-one (66% to 15%), they see China as a competitor not an enemy.

But such amorphous good feelings belie underlying economic concerns. About two-thirds (68%) of Americans think China is untrustworthy and nearly three-in-five (59%) worry about Beijing's economic strength. In its 2012 *Transatlantic Trends* survey, the German Marshall Fund found the concern: 59% of Americans said that they see China as an economic threat. As a result, the Pew survey showed that more Americans think it is important to get tougher on China (49%) than it is to build a stronger relationship (42%). And support for a more hard-nosed stance is up nine percentage points since March 2011.

Such sentiment grows out of Americans' widespread concern about the trade imbalance, which accounts for 42% of the total U.S. merchandise trade deficit and is up 6.8% in the first three-quarters of 2012 over 2011. About three-in-five Americans (61%) say the U.S. trade deficit with China is a *very* serious problem. More than seven-in-ten (71%) believe that the loss of jobs to China is very serious. And 78% think that the large amount of U.S. debt held by China, a direct consequence of the trade imbalance, is very serious.

But this is where the election might matter. Romney lost, and it was Romney supporters who were most supportive of the next president confronting China. Nearly two-thirds of Republicans backed getting tougher with Beijing, up 11 percentage points in just a year. Democrats, on the other hand, prioritized building stronger economic relations with China (53%) over getting tougher with China (39%). Democrats' backing for confrontation was up 6 points since 2011, but it remained the minority sentiment among those in Obama's party.

Similarly, Republicans (71%) were more worried about the trade deficit with China than Democrats (54%). Republicans were also more concerned about the loss of U.S. jobs to China, by 76% to 67%. And they were more likely to say the U.S. debt held by the Chinese was a very serious problem, by 87% to 75%.

The polling data are clear: Democrats are strongly concerned about the trade imbalance, the loss of U.S. jobs, and Chinese holding of U.S. debt. But the fact that their negative sentiments are less intense may give Obama more room to maneuver on China policy, especially if China lessens its export dependence and pursues economic growth through domestic consumption.

So what will be the pillars of the Obama administration's economic policy toward China in its second term?

The first will likely be more complaints about Chinese subsidies and trade practices filed with the WTO, given the president's campaign promises and his record during his first term. Washington has been relatively successful with such cases in the past, and pursuing multilateral dispute settlements has the added advantage of avoiding a direct bilateral confrontation with China.

The second will be the pursuit of trade agreements that notably do not include China. The most important of these is the Trans-Pacific Partnership (TPP), a free trade agreement among a growing list of nations bordering the Pacific. It is the Obama administration's avowed aim to construct a TPP with standards so high — especially rules regarding behavior by state-owned enterprises — that China could never join without transforming its economic system. This stance in part reflects the fact that two-thirds (67%) of the

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U.S. public believe China practices unfair trade, according to a 2012 survey by the Chicago Council on Global Affairs.

The likely 2013 launch of a U.S.-European Union free trade negotiation — effectively a Trans-Atlantic Partnership, a bookend for the TPP — primarily reflects majority (58%) sentiment in the United States that increased trade with Europe would be a good thing for the United States. But it can also be seen as an attempt to establish U.S.-European, rather than Chinese, technical and regulatory standards as global business norms.

The Obama administration is unlikely to label China a currency manipulator, which is something Mitt Romney promised he would do on his first day in office. In Obama's first term, the White House had multiple opportunities to do so and declined, even though the renminbi was weaker against the dollar than it is now.

The unknowable factor in future U.S.-China economic relations is the political impact of what is expected to be growing Chinese foreign direct investment in the United States. Chinese investment flows to the United States are expected to grow significantly in the years ahead. And experience with Japan suggests that if such investment creates and preserves jobs (and recent data suggests much Chinese investment is doing just that), Chinese investment may not create significant new political frictions.

U.S.-China economic relations are driven by underlying fundamentals and geo-political realities, not U.S. campaign rhetoric. Nevertheless, U.S. elected leaders ignore public opinion at their peril. Unless and until the U.S. trade deficit shrinks (lowering the United States' dependence on Chinese loans to fund that debt) and domestic job growth rebounds, there is likely to be public animosity toward China in the United States and bilateral economic frictions. While history suggests that these frictions are manageable, they will pose political headaches for both U.S. and Chinese leaders that could periodically adversely affect the strategic relationship.

About the Author

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