

TRADE AND COMPETITIVENESS: FINDINGS AND RECOMMENDATIONS

The Penn Project on the Future of U.S.-China Relations presents the following findings and recommendations from its Trade and Competitiveness group. The [policy papers](#) on which they are based, a [video](#) of the October 2nd webinar featuring these authors, and additional information can be found on the Project [website](#).

Managing the China Trade Challenge: Confronting the Limits of the WTO

[Mark Wu](#), Harvard Law School

Findings:

1. For the foreseeable future, the U.S. will remain engaged in a strategic competition with China. As the WTO faces a number of institutional challenges, including significant gaps in the substantive coverage of its legal rules, the WTO will prove ill-suited, in the near-term, to tackle the full range of U.S. complaints over Chinese trade practices, such as its industrial policies and digital governance.
2. There remain sharp differences between the U.S. and its allies, especially the EU, on issues relevant to the China challenge and on how to reform the WTO. Several of these differences pre-date the Trump administration and will endure, regardless of which candidate prevails in November 2020. Despite facing common trade challenges from China, these differences currently make it difficult for the U.S. and its allies to mount a united response.
3. Even if those differences can be resolved, a WTO-centric strategy is unlikely to bear fruit in the next administration because of other impediments that stand in the way of WTO reform.

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Recommendations:

1. To engage successfully in strategic competition with China, the U.S. needs to focus intensely on domestic policies to bolster its long-term economic competitiveness, to counter/offset Chinese industrial policies, and to ensure supply-chain resiliency for strategic industries.
2. The U.S. should seek to resolve differences with its allies over key WTO-related issues, including most notably, reform of WTO dispute settlement and digital trade. It should continue to collaborate with the EU and Japan through the trilateral process, as well as with other like-minded allies, to shape the future direction of WTO reforms.
3. The U.S. should adopt a multi-prong strategy and not over-invest in a WTO-based approach. Over the next four years, the U.S. should continue to focus on bilateral and regional negotiations with China as the key venue for discussing U.S.-China trade frictions, while increasing coordination with U.S. allies. While the U.S. should invest actively in ongoing WTO negotiations that seek to reform and bolster the institution's capacity to deal with China-related trade issues over the long-term, it must remain clear-eyed that the WTO reform process is slow and may well fall short of what is necessary for U.S. and allied interests.

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**“The Resurgent Role of the State in China’s Economy:
Experimentation, Domestic Politics, and U.S. Policy”**

[Meg Rithmire](#), Harvard Business School

Findings:

1. The role of the party-state in the Chinese economy has expanded in recent years well beyond “state-owned enterprises” and the developmental ambitions of local and central governments. The Chinese state is now an investor in an increasingly wide variety of firms.
2. The CCP is neither omnipotent nor omniscient in its management of the domestic economy and the firms in which it invests. China’s economy includes numerous actors with diverse interests that often conflict with Beijing’s strategic interests and official policy.
3. China’s economic policies are implemented as campaigns, relying on vague political mobilization rather than clear, detailed directives issued by the Party’s national leadership. Therefore, economic policies are subject to interpretation and refinement as the party-state sees how firms react and then tries to more effectively control them.

Recommendations:

1. U.S. policymakers should not view every action by Chinese firms as part of a plan formulated in Beijing. Doing so leads to erroneous conclusions about the meaning of China’s economic engagement at home and abroad, and risks American policy that is an unwise overreaction rather than a prudent, calibrated response to real challenges.
2. The U.S. should structure economic competition with China through adaptive but predictable institutions, such as the Committee on Foreign Investment in the United States. Overhauling institutions that have proven effective and constantly changing rules adequate to address the challenges China poses needlessly generates uncertainty for American and international firms.
3. U.S. policymakers should consider the benefits, as well as the risks, of economic interactions with China. In doing so, they should avoid costly measures to address imagined, rather than real, national security threats.

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**“China’s Belt and Road Initiative and the Problem with Geoeconomics:
Toward a More Thoughtful and Competitive U.S. Response”**

[Matt Ferchen](#), Mercator Institute for China Studies

Findings:

1. The dominant American view of China’s foreign economic policies – including its Belt and Road Initiative – overstates the relevance of strategic rivalry and underestimates the appeal of China’s “development”-themed economic statecraft in much of the Global South.
2. The United States has overestimated China’s ability to translate its trade, investment, and financial ties to Southeast Asia, Africa, and Latin America into effective political control over local governments that harms U.S. interests.
3. China’s economic relations with the developing world reveal the limits, as well as the appeal, of its growing role, and the opportunities for a more active U.S. role.

Recommendations:

1. The U.S. should help developing countries to build their own capacity to engage and negotiate with China on their own terms and in their own interests. The business community and civil society as well as the U.S. government should play roles in this effort.
2. The U.S. should also work with allies and partners in Asia and Europe to create more sustainable approaches to development that provide alternatives to China for financing and building transport, energy, and digital infrastructure in the Global South where America’s strategic interests intersect with China’s.
3. The U.S. should create and implement a new, self-confident, “prosperity agenda,” including leading multilateral COVID-19 health and economic recovery efforts, that will have broad appeal, especially for developing countries in Asia, Latin America, and Africa.