

Confronting the Reality of China's Economic Power

Introduction

China's recent economic endeavors have reshaped global dynamics and raised questions about the United States' long-standing economic dominance on the global stage. To fully understand this shift, it is essential to acknowledge the evolution of U.S.-China relations, especially over the past few decades. The catalyst of the recent conflict has been China's ambitious Belt and Road Initiative, which has sparked both intrigue and concern among nations. The United States alone cannot take on the mounting power of China; it will require various forms of partnership with our neighboring countries, specifically through trade agreements such as the Generalized System of Preferences (GSP), the U.S.-Mexico-Canada Agreement (USMCA), and a commitment to nearshoring. China's expanding influence can be met successfully by a united front put forth by the Western Hemisphere.

My internship with the Washington International Trade Association has opened my eyes to the complexities of the trade world. I initially had only a passing understanding of international trade, but through my research and professional responsibilities, I have gained a much deeper understanding. This experience has proved to be extremely timely as trade makes its way to headline news, and a new anti-open trade administration rolls in.

Background on the Economic Relationship between the United States and China

In recent decades, an undeniable relationship has formed through trade between the United States and China. China is one of the United States' biggest export markets and vice versa. There are benefits and drawbacks to this dynamic. On the positive side, we see lower prices and higher profits for American corporations. For China, trade has astronomically boosted

its economy in the past 20 years, placing it as the 2nd largest economy in the world. China entered the World Trade Organization (WTO) two decades ago, heralded by high levels of global optimism. Upon joining, they committed to economic reform, including tariff cuts and protection of intellectual property. In the mid-20th century, as the new People's Republic of China was getting its footing, there was little to no trade between it and the United States for many years following (Siripurapu & Berman, 2024).

Eventually, under the leadership of Deng Xiaoping, trade between the two countries became normalized. Then-President Bill Clinton believed this relationship would be mutually beneficial and spur democratic reform in China. There was civic backlash as many called China out for disregarding worker rights and environmental neglect (Siripurapu & Berman, 2024). They feared this would spur a race to the bottom as others tried to match them. A race to the bottom refers to when entities compete quickly to lower standards till they reach rock bottom. China thrives in exporting due to its position in global supply chains. Their factories can assemble products from all over the world, which the United States then imports.

These benefits also come with substantial drawbacks. Firstly, manufacturing jobs took a hit because of the speed at which imports rose. Research shows that countries most harmed by Chinese trade competition also saw increases in political polarization. Citizens and government officials alike are concerned about the national security threat that China poses to the United States. They worry that Chinese espionage will spread misinformation and collect sensitive data on Americans, specifically in companies using Chinese technology. Additionally, there is a fear that China will steal U.S. technology to boost its military prowess (Siripurapu & Berman, 2024). There has been an increase in state-owned enterprises that essentially function as puppets of the government and do not act under the same constraints as the private sector in China.

Currency manipulation is another prevalent problem. Since joining the World Trade Organization, China has artificially lowered the value of its currency, the renminbi. The weaker the renminbi, the more affordable Chinese goods are on the global market, and the more expensive U.S. goods are in China, incentivizing people not to buy them (Siripurapu & Berman, 2024). Starting in the Obama administration and continuing through the Trump and Biden administrations, presidents have begun to check China's economic power.

China's Belt and Road Initiative and the World's Response

Your average history buff has heard of the ancient Silk Road and how it spanned more than four thousand miles from the land of the Han dynasty. It forged a new and extensive trade network where wealth and culture grew. But now, Central Asian countries are economically isolated from each other, most heavily relying on Russia. President Xi sought to change this through his ambitious Belt and Road Initiative (BRI). It launched in 2013 with hopes to link China with the rest of Asia and Europe through physical infrastructure like railways, highways, and energy pipelines. Along with those developments, they have also offered monetary support to many countries by creating jobs and, in turn, encouraging the usage of Chinese-developed technology (McBride & Chatzky, 2023).

Xi's plan has found great success, and now 147 countries, or 2/3 of the global population, or 40% of the world's GDP, have either signed on or expressed interest in BRI. In total, it is estimated that China has invested over \$1 trillion in the project. In recent decades, China has stepped up as a global superpower. Under Xi's presidency, a more assertive role for the country is being pursued, where economic and political influence has significantly more sway globally. The United States has failed to put forth any meaningful challenge to the Belt and Road Initiative. There is worry that the BRI could be functioning as a Trojan horse for China-led

development and military expansion, but without a suitable replacement to offer other member countries, the BRI's hold continues to expand globally. China has exploited these new relationships to seek leverage over BRI-affiliated countries. Some contracts with partners state that China can demand repayment of loans at any point (McBride & Chatzky, 2023). They use this stipulation to force other countries to play into their personal national agenda. For example, very quickly after Nicaragua joined BRI, it severed all ties with Taiwan.

Countries of the world that find themselves in contentious relationships with China have watched the Belt and Road Initiative unfold with much concern. Under the Biden administration, they launched the Build Back Better World Initiative, but it never gained the traction or financial support needed to get off its feet. The European Union has seen a majority of its members express interest in BRI, and in response, they started Global Gateway to rival it, but the same issue prevailed: it was not able to match BRI in scale. Even countries within Asia are suspicious of China, like Japan, which has pledged over \$300 billion in infrastructure support to countries that would otherwise sign on with BRI (McBride & Chatzky, 2023). Partnered with India, they have created the Asia-Africa Growth Corridor, but it is still in its early stages.

The United States is wary of China's leverage over the ever-growing number of BRI countries. Most worryingly, it seems that the relationship doesn't end at just economics; in some areas, quasi-military arrangements are being implemented. Before long, America could start to see an influx of Chinese troops in its own backyard (Aredy, Dube, Ruiz, 2024).

The Continuation of the Generalized System of Preferences Program and USMCA Programs

Chinese influence is soaring in Latin America. Through BRI, they have signed deals with many Latin American nations. Oil from Venezuela, Soy from Brazil, trains in Mexico, dams in Ecuador, and, most recently, a large port in Peru - connections are sprouting everywhere and in every sector. However, this is not to say that there is no longer room for relations between the United States and Latin America, but they must offer a counter that is better than what China is offering the region. (Aredy, Dube, Ruiz, 2024). China is drawn to the region for the same reasons that the United States should be, such as abundant resources and human capital. By backing things like nearshoring and the Generalized System of Preferences, with help from the private sector, the United States can restructure trade relations with our neighboring countries.

Generalized System of Preferences (GSP) is a trade program offering certain U.S. imports to pass as duty-free or exempt from certain taxes from eligible developing countries. The program began in the 1970s and was initially authorized for ten years; it has since been reauthorized 14 times. On December 31st, 2020, GSP expired and has yet to be renewed (Congressional Research Service, 2022). GSP has been used by both the United Nations and the United States. However, they do not share one unified GSP system; each entity has made its own version, but all were aligned on essentially the same principles. GSP's ultimate objective was to help economic development in underdeveloped countries through trade (CRS, 2022).

In the United States, eligible countries are to be decided by the president, who holds the primary authority over GSP. Those selected are referred to as Beneficiary Developing Countries (BDCs) and are held accountable for specific responsibilities, such as a commitment to internationally accepted human rights standards to stop the exploitation of labor and protect intellectual property rights. It is within the president's power to adjust a country's GSP status based on the criteria mentioned above. In its prime, over 100 developing countries benefited

from GSP (CRS, 2022). If you look at GSP through a strategic lens, it can foster stronger political and economic ties with these developing countries, but from a consumer standpoint, it also brings about lower prices because of the reduced import costs (Quickonomics 2024). GSP has seen bipartisan support, but its renewal has yet to be prioritized.

A GSP success story can be seen in Haiti through its apparel sector, which has been granted duty-free access to U.S. markets. Haiti is one of the world's most impoverished nations, but this trade agreement has created jobs for over 50,000 citizens, including women. In its heyday, the apparel sector made up 90% of the country's total exports. GSP also built the resilience of their local economy; even through hurricanes and other crises, they were able to maintain apparel production (ITA, 2024).

GSP is just one of many trade agreements America has pursued. The United States-Mexico-Canada Agreement (USMCA), which replaced the North American Free Trade Agreement (NAFTA), is yet another notable one. Supporters argue that it transcends just a simple trade agreement and instead is an economic cooperation agreement that promotes industry development. USMCA functions to lower trade barriers and expand market access for businesses among all participants. It has strict regulations and various response mechanisms to address any violations. In effect, since mid-2020, USMCA has fostered a positive trade relationship with Canada and Mexico to such a degree that they now rival China as a top trading partner for the United States (Brookings, 2024).

The agreement received political support from all three nations, with overwhelming bipartisan support in Congress. But as we approach its mandatory joint review in 2026, the trade agenda has changed in the United States, and the renewal of USMCA is assumed to become a

partisan issue (Brookings, 2024). The Manufacturing sector worries that its termination would reduce trade and innovation in North America.

Nearshoring and the Responsibility of the Private Sector

The practice of nearshoring further enhances U.S. trade opportunities for growth. Not only does it secure and diversify supply chains, but it also helps the U.S. build alliances and diminish the influence of China on our neighboring nations. The geographic proximity of these places simply makes trade easier and more efficient. Major disruptions to geopolitics in the past 5 years, such as the COVID-19 pandemic and Russia's invasion of Ukraine, have shown how fragile global supply chains can be. Latin America and the Caribbean are nearby, have a foundation of bilateral trade agreements, and have desirable resources. Just as it would benefit the United States, Latin America could see similar outcomes. It is estimated that nearshoring could add 78\$ billion in additional exports of goods and services (Atlantic Council, 2024).

There is no question that governments are important actors in developing trade policy. Still, the private sector is needed for nearshoring investments and fostering operations in BDCs through GSP. A collaboration between the public and private sectors is essential. On the government side, the Americas Act is a bipartisan bill encouraging nearshoring by bringing more jobs and investment into our hemisphere. The United States can create the right conditions through trade policy and agreements, but it is up to the fiscal power of the private sector to invest and drive progress (Niang, 2024).

Counterarguments to Proposed Solutions

There is significant division on what moves are the right ones when it comes to international trade. The proposed solutions of GSP, USMCA, nearshoring, and private sector

involvement are not without criticism. In terms of GSP, there is worry that not all BDCs are complying with the requirements, especially in terms of workers' rights violations and the protection of intellectual properties (CRS, 2021). There is also dissidence over whether to include emerging market developing countries such as Turkey and India or to limit GSP to only the most underdeveloped. USMCA faces criticism that it doesn't do enough to protect American manufacturing jobs; they fear that with this trade agreement, companies will relocate to Mexico for their lower labor costs (Novalink, 2024). Those who discourage the involvement of the private sector fear that large corporations will dominate local markets and be harder to regulate (Souza, 2021). An overarching assumption by those opposed to trade agreements such as these is that it will cost Americans their jobs. With expected reviews of such trade agreements on the horizon, both sides of the aisle are trying to reconcile these issues through new regulations and enforcement mechanisms.

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