

United states and china economic relation

[Countries](#), [United States](#)



Introduction The IP ADR Blog In 2010, China became the world largest exporter. Before 1997, China's economy was based on a closed, centrally planned system and then they changed to a market oriented system with a major role in the global economy. Today, China is the United States second largest trading partner, its fourth largest export market and second largest source of imports. Total trade with the United States has grown from \$4 billion in 1980 to approximately \$343 billion in 2006. This impressive growth brings with it several issues that at this time make the economic relation between the U. S. and China full of conflicts. Some of these issues are Currency Manipulation, Trade Imbalances, Intellectual Property Rights and China's Indigenous Innovation. Theoretical Framework As Joseph C. H. Chai said in his book " China: Transition to a Market Economy"; this economic transition can be divided in three stages. The first stage took place from 1979 to 1984. By this time China had a planned economy with just a few aspects of a market mechanism being introduced. Reforms during this period were strongly focused on the agricultural sector. Both the foreign trade and foreign investment regime were still heavily regulated (Chai, 1997). The second stage took place from 1985 to 1991. In this period of time the reforms in China were more focused on the urban sector. The final purpose of these reforms on China's economic system was to give more control to the markets in terms of resource allocation and the government would only have some indirect control through the market. Some of these reforms include: the strengthening of enterprise autonomy, liberalization of product and factor prices, and the further liberalization of foreign economic relations. Finally, the third stage took place in 1992; when the China's Congress finally

decided to establish a full market economy putting aside the concept of a planned economy. Currency Manipulation Nowadays there is a huge debate about the China's supposed currency manipulation. Even though last Friday February 4th, the US Treasury released the semi-annual report on currency issues affirming that China does not manipulate their currency in order to have an unfair international advantage. Anyways many Americans and other people around the world strongly believe they do manipulate their currency. Michael Freimuth To begin with, how does a country (in this case China) manipulate their currency? It is said that the Chinese government sells its own currency and buys massive amounts of US dollars to make a reserve. This action pegs the Yuan value which does not allow it to move freely in the foreign exchange market. Some economist thinks that the Chinese Yuan is undervalued around 20%. This action brings major effects in exporters and importers competitors, consumers, borrowers, and the entire U. S. economy in general. By making the Chinese Yuan less expensive than the U. S. dollar Chinese exports become comparatively inexpensive and U. S. exports comparatively expensive. As stated before, China has become the second largest import partner; these imports are majorly labor-intensive goods. By this, there are a number of U. S. industries being affected by the currency manipulation making them less competitive because China's undervalued currency contributes to a reduction in the output of these industries. In the end this causes a US trade balance deficit. The undervalued Yuan also affects US borrowers. Chinese central bank and private citizens are investing in U. S. assets; this greater demand for U. S. assets puts pressure on U. S. interest rates. According to the U. S. Treasury Department, China held

around \$347 billion in US Treasury Securities making them the second largest holder; but if the deficit with China was eliminated, Chinese capital would no longer flow into this country. For consumers an undervalued Chinese currency lowers the prices of China's imports making them more accessible to U. S. consumers. In the long term the U. S. consumers will increase their purchasing power of China's imports. In the midterm the undervalued Yuan will not increase or decrease the aggregate demand of the US. In fact capital intensive firms will be benefited by from the lower interest rates. Talking about employment, currency manipulation is not expected to have an influence on it. At the end, some areas of the general economy will be benefited while others will not. Trade Imbalances In 2010, the balance of trade between China and the U. S. finished with a deficit of \$273 billion for the U. S., Because of China's imports of \$364 billion versus \$91 billion exported in goods and services to China (U. S. Census Bureau). The main reason of this balance is the low-cost goods produced in China. Some economists agree that the low prices of Chinese products are because of the lower standard of living in China, which allows them to pay their workers lower salaries and the currency manipulation that is set to be always priced lower than the dollar. U. S. firms can't compete with the cheap Chinese goods and labor. Therefore to do so, they need to lower their cost or make offshore outsourcing to India, China, Vietnam, Bangladesh or other countries with lower wages. Eventually this could contribute to the U. S unemployment. Intellectual Property Rights (IPR) Just in 2005, United States IPR industry officials estimated that piracy in China cost around \$2. 4 billion dollars in lost for U. S. copyright firms. This unfair trade has become a

serious problem for U. S. firms, damaging the demand of their original products. In 2010, China was the first source of counterfeit products entering the United States. The most affected U. S. companies by China's piracy are movies, music, business, software, and publishing. Property rights systems specify relations among people regarding the use of things (Wu, 2003).

Intellectual Property Rights are needed for a genuine market economy. Some scholars like: Weimer, Che and Quian, and Walder; put property rights at the center of studies on economic reforms and transitions. American companies operating in China say that the intellectual property theft is very common in China. Actually, they state that it is supported by Beijing. China's antimonopoly law allows firms to license foreign technology in some cases which at the end finishes with U. S. companies competing against Chinese companies using a slight distinction of foreign technology. When China entered the World Trade Organization (WTO) in December 2001, China had to improve in the Intellectual Property Rights to comply with the WTO Agreement on Trade-Related Aspects. Even though, China's piracy rate remains as the highest in the world and US companies still lose over one million dollars per year because of this. Around 20 percent of all imports coming from China are counterfeit products. Still, China's government seems committed to fight against it by enforcing these measures taken. Some of these measures are the establishment of the China State Intellectual Property Office (SIPO), the joining of the WIPO and the Berne and Paris Conventions. But yet, this has not been sufficient. This may be because of China's reliance on the administrative measures instead of criminal measures to combat the Intellectual Property Rights. Despite all this, China's

government is really working to fight piracy in their country. They are trying to “ build an economy that relies on innovation rather than imitation” (New York Times, 2011). Actually they are giving some incentives like cash bonuses, better housing and tax breaks to various companies to develop their innovation. China’s Indigenous Innovation For the last two decades China has experimented with a transition in its institutions and organizations, which are in charge of the national resources. To be able to experiment with this transition, China has been working on the transformation of science and technology systems in order to support industrial development. The economic reforms in the late 1970’s were based on the development of science and technology systems; this was organized exclusively by demand of the government. The Chinese government has been highly proactive in implementing an institutional and organizational infrastructure that can ensure that science and technology systems and their activities support the process and innovation of the industry. China has developed into a national innovation system, which integrates government science and technology efforts with the business activities of industrial enterprises. By understanding the development of the Founder Group and how it became a major high-technology enterprise, the Founder Group provides important insights into the relation between the organizational transformation of the national innovation system and the economic transition in China. China has upgraded its competitiveness with the formation of a national innovation system, which makes possible the commercialization of technology. Its success is more obvious in the information-technology industries, considering it success in the area of computers and telecommunications. China is now the second

largest computer market in Asia, and since 1991 it has changed from being a net importer into a net exporter of computers products and accessories. The dominant Chinese enterprise is the Founder Group, the world leader in pictographic language electronic publishing systems (EPS). Founder not only dominates Chinese market but also Hong Kong, Taiwan, Singapore, Malaysia, United States and Europe markets. With all its experience it has been developing sophisticated pictographic font processing technologies. Founder is a growing and innovative enterprise company, internationally competitive in the Chinese computer and information technology industries. Founder is a commercial offshoot of Beijing University's Institute of Computer Science and Technology (ICST). It is a legal entity, non-governmental and follows a non-traditional form of state ownership in which the enterprise is established outside central or local government budgetary channels. Even though the main success of Founder was the EPS, in the past few years this company has become an important supplier of software for system integration and a major producer and distributor of personal computers. Founder was the fourth largest indigenous PC brand in China in 1997. The institutional foundation for China's indigenous progress in high technology has been the integration of investment strategies and learning of the national innovation system, which includes: Chinese state, public research institutes and high technology enterprises. The Chinese state is hardly involved in the national innovation systems (science and technology), because of this involvement state and enterprises are linked together, with the intermediation of several research programs and research institutes. Conclusion The past few decades have been significant for the United States and China's trade relationship.

The United States is not the only country that has trading problems with China because of this. All around the world, countries are concerned about China's currency manipulation, intellectual property rights and indigenous innovation which lead to trade imbalances with most of the countries. It can be seen that China is working hard in improving itself as the number one economy of the world. As stated before U. S. treasury affirmed that China is not manipulating its currency. There is actual proof that confirms the fighting that China has against piracy in their country by enforcing government measures, joining international organizations and giving their companies incentives to work in innovations instead of imitation. With all this work China is working hard to become, in the next few years, the new number one market economy of the world. Works Cited Central Intelligence Agency.

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