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AMERICAN COMPASS

End "Permanent Normal Trade Relations" with China

RECLAIMING CONTROL OF U.S. TRADE POLICY

WHAT'S THE PROBLEM?

China disregards the rules of international trade, restricting access to its own market, distorting foreign markets with subsidies, and stealing intellectual property.

The resulting trade imbalances, declining domestic investment, and reduction in production capacity continually **harm American industry and workers**.

Expecting China would play by the rules, the U.S. welcomed it to the WTO, extending the privileges of permanent normal trade relations—and **making it harder for U.S. policymakers to protect American interests**.

MORTGAGING OUR FUTURE

World Trade Organization (WTO) members like the United States are expected to extend permanent normal trade relations (PNTR) to each other. Countries like China that routinely violate WTO rules still benefit from these protections, with little consequence. China obstructs access to its market, steals intellectual property, and coerces foreign firms. Attempts to defend American interests have backfired, with the WTO ruling against the U.S. for defending its own interests.

Granting PNTR to China as part of its ascension to the WTO was supposed to grant American firms and workers comparable benefits in the Chinese market. But the experts were wrong.

China's ascension to the WTO triggered a rapid increase in offshoring and import competition. This "China Shock" cost millions of American jobs, reduced domestic investment and innovative capacity, strained many communities' social fabric, and contributed to a surge in "deaths of despair" concentrated among middle-aged Americans without college degrees.

WHAT'S THE SOLUTION?

Congress should revoke China's PNTR status and refuse to treat China as a free trade partner.

Moving forward, Congress should debate the status of Chinese trade relations annually, issuing regular policy determinations about how to regulate trade with China, as it did before it relinquished its authority to the WTO.

A REAL RESET

Despite its handicaps, the WTO still provides a useful legal framework for trade amongst law-abiding countries.

The U.S. should continue to enjoy the benefits of WTO membership where possible while refusing to abide by one-sided WTO constraints that trading partners disregard. By rescinding PNTR status, the United States would signal to China that it will no longer tolerate open violation of trade norms. The global community would understand that American trade policy will be dictated by American interests, not weak international bodies.

Without PNTR status, all products from China would by default be subject to the higher tariff. This would reduce offshoring by discouraging American investors and corporations from doing business in China. The diminishing demand for Chinese goods would bolster American producers.

FREQUENTLY RAISED OBJECTIONS

“THE UNITED STATES SHOULD NOT ABANDON THE ESTABLISHED GLOBAL ECONOMIC ORDER.”
The WTO’s legal framework provides a useful default for American companies productively engaged in the global economy. Outright WTO withdrawal could do more harm than good and is not tailored to address the China challenge. The U.S. should not hesitate to reject WTO rules and standards when they are not in the national interest. Congress voted to suspend Russia’s PNTR status after the invasion of Ukraine—with strong support from many of those most concerned about maintaining the international order. The much graver long-term threat of our current trade dynamic with China merits at least as strong a response.

“RESCINDING CHINA’S PNTR WILL START A HARMFUL TRADE WAR.”
America is already in a harmful trade war. At no time have the WTO’s paper-thin constraints altered China’s decisions about how to act in its interest. Any hope of ending that war on acceptable terms requires a credible commitment by the United States to defend its own interests and retaliate against Chinese abuses.

“INCREASING TARIFFS ON GOODS FROM CHINA WILL RAISE PRICES FOR AMERICANS.”
Even very large tariffs have barely detectable short-term effects on consumer prices, and every dollar of tariffs can go toward reducing other taxes or costs that families face. In practice, much of a tariff’s cost will be borne by foreign producers who must cut prices to compete in our market, which economists found to be the case when President Trump imposed tariffs on specific goods from China. In the long run, as firms invest in domestic capacity and innovation, consumers may even benefit from lower prices as a result.

KEY FACTS

$383B U.S. trade deficit with China in 2022[1]

$945B U.S. international trade deficit in 2022[2]

10% Decline in industrial output, excluding semiconductors and electronics, in the 20 years after China joined the WTO (2000–2020)[3]

35% Decline in production jobs in manufacturing in the 20 years after China joined the WTO (2000–2020)[4]

FURTHER READING

Oren Cass. “Searching for Capitalism in the Wreckage of Globalization.” *American Compass*, 2022.
An examination of the origins and failures of free trade dogma.

“Where’s the Growth?” *American Compass*, 2022.
An assessment of the impact of globalization on key economic metrics in the United States.

“The Balancing Act.” *American Compass*, 2022.
A policy framework for addressing the economic damage caused by globalization.

“China Trade Relations Act of 2023.” *Senators Tom Cotton (R-AR), Rick Scott (R-FL), Ted Budd (R-NC), and J.D. Vance (R-OH).*
A proposal to revoke PNTR with China and revise its most favored nation status.

“Ending Normal Trade Relations with China Act.” *Senator Josh Hawley (R-MO).*
A proposal to revoke PNTR with China.

ABOUT AMERICAN COMPASS

Our mission is to restore an economic consensus that emphasizes the importance of family, community, and industry to the nation’s liberty and prosperity. American Compass is a 501(c)(3) nonprofit organization.

For more information, visit americancompass.org

[1] “U.S. International Trade in Goods and Services, December and Annual 2022.” US Bureau of Economic of Economic Analysis.
[2] “2022 Trade Gap is $945.3 Billion.” US Bureau of Economic Analysis.
[3] Board of Governors of the U.S. Federal Reserve System.
[4] Ibid.