



This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. [Order a reprint of this article now.](#)

January 18, 2011

U.S. Shifts Focus to Press China for Market Access

By **HELENE COOPER** and **MARK LANDLER**

WASHINGTON — A year ago, the fight over how **China's** cheap currency was hurting American companies in marketplaces at home and abroad was shaping up to be the epic battle between the world's biggest power and its biggest economic rival.

But when President **Hu Jintao** walks into the Eisenhower Executive Office Building with **President Obama** on Wednesday to face a group of 18 American and Chinese business leaders, much of the clash will be about a new economic battlefield — inside China itself.

A series of trade restrictions imposed by the Chinese government within China, including administrative controls, requirements to transfer sophisticated technology, state subsidies to favored domestic companies and so-called indigenous laws meant to favor homegrown businesses, have angered many American manufacturing and high-tech companies, which are rapidly finding themselves cut out of the world's fastest growing market.

The result is that the two countries have to resolve a wider range of economic tensions, including what American multinational corporations see as a deteriorating environment for investing and making money in what has become the world's second largest economy.

So it is no longer just a fight over cheap Chinese textile, electronic and toy imports. China won that battle years ago. Now the question — reminiscent of trade tensions with Japan in the 1980s — is whether **General Electric** and **Microsoft** and other American companies that dearly want to expand into China's rapidly expanding markets will find themselves beaten at their own game by Chinese companies, backed by the Chinese government, "competing at every point in the

technology spectrum,” said Eswar Shanker Prasad, a former economist with the [International Monetary Fund](#) who now teaches trade policy at [Cornell University](#).

Myron Brilliant, a senior vice president at the [U.S. Chamber of Commerce](#), said, “It’s no longer just a question of [Nucor](#) complaining about dumping,” referring to the American steel manufacturing company that has accused China of selling steel fasteners and bolts at below-market prices abroad. “Those concerns may not be going away, but the noise out there now has additional voices. The voices are not just low-cost products coming here; the competition is about China’s marketplace.”

For Mr. Obama, the shift gives him stronger backing from American businesses for a tougher approach to China when he sits down with Mr. Hu. The Chinese president arrived in Washington on Tuesday afternoon for two full days of high-level meetings that began with a private dinner at the White House on Tuesday evening.

“The business community has historically been the bastion of support for the U.S.-China relationship,” said [Michael Froman](#), the deputy national security adviser for international economic affairs, in an interview. “Now that support is more qualified.” Mr. Froman said that Mr. Obama and American officials would be “underscoring the importance of addressing these issues if we’re going to have a level playing field.”

American companies have always had a love-hate relationship with China — with the manufacturing companies in the South and steel companies in the Midwest urging the government to take tough action against China, and advanced manufacturers and high-tech companies that want access to the Chinese marketplace pressing for a more conciliatory tone.

Now, both sides seem to want the administration to get tough. Last year, [Jeffrey R. Immelt](#) of G.E. complained to a meeting of business leaders in Rome that it was getting harder for foreign companies to do business in China, and he expressed a growing irritation that China was protecting its own national companies at the detriment of American companies.

[Google](#) last March moved its Chinese service out of mainland China to avoid censorship rules. The American Chamber of Commerce in Beijing has also complained that its members are facing an increasingly difficult regulatory environment.

Treasury Secretary [Timothy F. Geithner](#) signaled the Obama administration's stance in a speech last week, when he said that the United States would grant China more access to high-tech American products and expand trade and investment opportunities within the United States only if China opened its own domestic market to American products. That push for market access, administration officials said, will be at the top of Mr. Obama's agenda with Mr. Hu, both during their one-on-one meetings and when they meet with the business leaders.

American multinational corporations, experts said, are hurt by Chinese regulations that openly favor Chinese companies over foreign ones for government contracts. These rules, which are intended to stimulate technological innovation in China, have the effect of cutting American and other non-Chinese companies out of many of the big contracts there.

"U.S. companies have issues with China in many different business sectors," said John Frisbie, president of the U.S.-China Business Council in Washington. "But if I were to point to one single issue over the last year, it has been China's innovation policies and how they link to government procurement."

Under pressure from the United States and other countries, the Chinese have paused in their rollout of the rules. But Beijing has not scrapped them, and the administration will raise the issue again this week with Mr. Hu.

Mr. Frisbie also pointed to intellectual property rights as another "existential issue" for software developers and movie producers. There is some evidence of progress on this issue: at a meeting in Beijing last month, the Chinese government pledged to use only properly registered software in government offices.

As important as these issues are, some economists argue that they pale when compared with the distortions caused by an undervalued currency. While nationalistic rules that favor Chinese companies affect technology and entertainment giants, China's cheap currency undercuts tens of thousands of small-scale American manufacturers — companies that still make their products at home.

"The small mom-and-pop companies, which are getting crushed by [the renminbi](#), you never hear from them," said Nicholas R. Lardy, an expert on the Chinese economy at the Peterson

Institute for International Economics. “They don’t really have a voice. They just shrink and go out of business.”

While the renminbi, China’s currency, has risen 3.6 percent against [the dollar](#) since China loosened its link to the dollar last June, Mr. Lardy estimates that it is still undervalued by 15 percent to 17 percent on a trade-weighted basis.

Mr. Geithner has argued that it is in China’s self-interest to allow its currency to rise, to curb building inflationary pressures in the Chinese economy. The Chinese government has also declared that it wants to reduce the share of exports in overall economic growth.

But Mr. Lardy said he was skeptical that the Chinese would take the advice, given that they had not accelerated the rise in the currency last fall, when inflation began heating up. And in the wake of a financial crisis that originated in the United States, he said, China would be even less inclined to listen to economic prescriptions from Washington.

“They learned that the advice they’ve been getting from previous Treasury secretaries wasn’t worth the paper it was printed on,” Mr. Lardy said.