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Special report: Does corporate America kowtow to China?

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By Nick Carey and James B. Kelleher

SHEBOYGAN, Wisc. (Reuters) - China's rise as a manufacturing power has benefited American factory owners in at least one way.

The Middle Kingdom's insatiable appetite for second-hand machinery means that small U.S. businesses can make a quick buck by selling old equipment there.

For some American manufacturers, however, the idea of shipping even used stuff with no book value to their chief overseas rival is anathema.

Many of the machines at Bob Chesebro's factory in this Wisconsin city on the shores of Lake Michigan do something seemingly mundane: they sew the toes of the socks he makes closed. In China that is still often done by hand -- a labor-intensive task that other developing countries will eventually do more cheaply as Chinese wages rise.

Chesebro, chief executive and third-generation owner of Wigwam Mills Inc, one of America's few remaining sock makers, refuses to surrender his edge. His equipment ends its days as scrap metal in a dumpster behind his plant.

"We have taken the view that if we sell these machines we're just going to put them in the hands of people who will compete against us," he said.

In several ways, Wigwam defies the conventional wisdom of today's global market. It has managed to succeed making a relatively high-volume, low-cost commodity product, employing hundreds of workers right here in the United States. It has done so by boosting its productivity and developing niche products like hiking and medical socks in-house.

Given the savage nature of the competition you might expect Chesebro to vent mainly against Chinese-style capitalism. But like dozens of manufacturers and others across America interviewed for this story, his anger isn't directed at China, which he and others say is doing what it deems as necessary to boost its own people's prosperity. Instead, their ire is aimed at the U.S. government and American multinationals for not stepping up to the plate and defending long-term U.S. interests.

"I don't blame the Chinese, they're just pursuing their national interest," said Patrick Mulloy, a member of the Congressional U.S.-China Economic and Security Review Commission. "I blame us for not realizing what's happening to us and for doing nothing about it."

Prior to China's accession to the World Trade Organization almost a decade ago, free trade proponents argued that the move would create American jobs and eliminate the country's trade deficit. Neither prediction has proven accurate.

The U.S. trade shortfall with China hit a record high $273 billion last year and government data shows some 40 percent of factories with more than 250 employees closed down from 2001 to 2010.

While it can't all be laid at China's door, it is not a coincidence that after decades of more gradual decline, U.S. manufacturing took a nose dive after China's entry into the WTO.

Cheap labor is one huge advantage for China, of course. But numerous academics, former trade officials and labor union officials say predatory trade practices, subsidized exports and other controversial economic policies also make Chinese companies tough to compete against.

And they warn that unless the U.S. works out a way to bolster and promote the sector, future prosperity and America's superpower status will eventually be at risk. This is only underlined by the U.S. economy's fragile state, with the jobless rate at 8.8 percent, growth tepid, and a huge government budget deficit and debt burden.

Even China's rising production costs may present an increasing threat, they argue. It means that China will be less able to rely on being the cheap maker of textiles, toys, furniture and plastics to create jobs -- some of that production is increasingly going to go to places like Bangladesh and Vietnam.

Instead, Beijing is increasingly focused on moving up the chain to higher valued technology-based goods -- which puts it in direct competition with the remaining power base of the U.S. manufacturing sector. And the technology-transfer terms that many big American companies are agreeing to when they do deals in China, and the research centers they are opening up there, means they could in some cases be signing their own death warrants.

Peter Navarro, a professor of economics and public policy at the University of California, who correctly predicted the U.S. housing bust, predicts that the crash America faces if it neglects manufacturing for too long is "going to be far worse."

"Over time the problems Americans are seeing with their economy are only going to get worse as China rises," he said. "We're heading for a collision and the longer that collision is delayed the harder it's going to be."

CHINA INC VERSUS JAPAN INC

Still, free trade proponents have warned repeatedly that any protectionist measures would result in a costly trade war that neither side can win. They also argue that the United States has only itself to blame for its economic problems.

In an interview at the Hilton Chicago during Chinese President Hu Jintao's visit to the city earlier this year, Doug Oberhelman, CEO of heavy equipment maker Caterpillar Inc, which has 11 Caterpillar plants and R&D centers and some 15 percent of its workforce in China, acknowledged there would always be "frictions" between the two countries.

"But the fact is ... we need each other desperately," he said. "We need peace."

Local manufacturers, though, say the first shots have been fired, and they question whether the g multinationals are wrongly pursuing a policy of appeasement.

They complain that Chinese companies benefit from a raft of subsidies -- from what they see as an undervalued yuan currency, to artificially cheap or even free land in some cases, low-interest loans and even subsidized energy bills -- and the U.S. government and major companies say or do little in response.

"We're in the middle of an economic war with China," said Milton Magnus, president of Leeds, Alabama-based M&B Hangers, America's last maker of metal coat hangers, who also destroys his old machines, which are designed and built in-house. "The Chinese want what we have and we're just sitting back and giving it to them."

But it isn't just a war over cheaper products like coat hangers and socks.

Mounting evidence also suggests China is appropriating proprietary technology from Western firms and then using it to compete directly in ever more advanced fields.

The Chinese government has also been accused by foreign businessmen of changing the rules at home to favor local manufacturers for government contracts over foreign competitors.

Small manufacturers say they have increased productivity to compete. Wigwam's Chesebro says he has not replaced staff who retired or moved on over the years, reducing headcount to about 260 from 500 over the past two decades and his machines are now far more efficient. But small manufacturers insist labor costs are not relevant when in many cases heavily-subsidized goods from China have been sold in America for below what the local manufacturers pay for raw materials.

"Labor costs have nothing to do with it," said Bill Upton, president of Pelham, Alabama-based Vulcan Threaded Products Inc. Vulcan makes steel bars and rods for everything from air conditioning units to sprinkler systems, is the last American firm of its kind, and won a trade case against Chinese competitors in 2008.

"We have a lean, efficient operation and we can compete against anyone in the world on a level playing field. But there's no way we can compete against finished goods that cost less than the raw materials," Upton said.

Even when American manufacturers do successfully pursue cases alleging unfair competition they may not come out on top. A case can cost around $1 million in legal fees, and often takes more than a year plus a lot of management time that could be spent more productively. And they claim even after penalties have been imposed, Chinese competitors often merely circumvent customs duties and other barriers by trans-shipping goods through third countries.

Still, free trade proponents point to the example of "Japan Inc" in the 1980s -- when there were fears that Japan's rise as a manufacturer threatened future American prosperity -- as evidence that concerns over foreign competition can be overblown.

Yet a key difference between "Japan Inc" in the 1980s and "China Inc" is that Japan discouraged foreign investment, whereas China has embraced it.

Back then, some key U.S. multinationals made a great deal of noise in public, and in the U.S. Congress, about unfair Japanese trading practices. Their interests were aligned with the smaller domestic manufacturers.

But today, multinationals profit hugely from China and have less incentive to rock the boat. Only last week, Yum Brands Inc, the owner of the KFC, Pizza Hut and Taco Bell fast food restaurants, reported its operating profit was 75 percent greater in China than in the U.S. in the first quarter.

"The big difference is that no one made any money off Japan Inc," said Diane Swonk, chief economist at Mesirow Financial. "But some people are making a lot of money off China Inc."

SILENCE OF THE CEOS

Big American companies with investments in China are afraid to criticize Beijing because of the controls it has over just about any access to the Chinese market. They fear too strident a stance could mean they will lose contracts or even be ostracized as Google Inc was after a dispute with China over censorship and hacking.

"The Chinese government controls all the levers of the economy, from import and export licenses on up," said Victor Shih, an assistant professor of politics at Northwestern University. "There are so many ways for the Chinese government to retaliate it is no surprise businesses are so reluctant to criticize it."

But multinationals and their CEOs have a great deal of influence on debate in Washington and more widely in the country. They have often lobbied aggressively against any measures they deem protectionist, so their relative silence is seen by many smaller manufacturers and others as weakening the U.S. in its trade relationship with China.

"The issue today is that the firms hurting the most are not as politically connected as the firms that are benefiting the most," Mesirow's Swonk said.

There are no easy answers to America's predicament, for either the administration of U.S. President Barack Obama or the businesses that have bet heavily on China.

The WTO, for instance, ruled on March 11 that the United States could not levy extra duties on Chinese goods that the American government had described as subsidized and unfairly priced.

But such difficulties are not a reason for multinationals to roll over easily in the face of Chinese demands, say critics of their behavior.

Critics and academics warn that multinationals trading technology for market access have frequently found themselves a few years later losing out in export markets to Chinese competitors who were formerly their partners.

"The companies that hand over proprietary technology do so in the hope that they'll be the ones to get the better end of the bargain," said Eswar Prasad, a trade policy professor at Cornell University and a senior fellow at the Brookings Institution. "But so far the Chinese have come out ahead in most cases. Hope springs eternal, but it's a very dangerous bargain to make."

The handing over of proprietary technology also raises questions about the impact on U.S. national security, especially in trying to keep the Chinese military from being belligerent toward American allies in the Asia-Pacific region.

In a recent RAND Corp report "Ready for Takeoff: China's Advancing Aerospace Industry," the authors stated there is "no question... that foreign involvement in China's aviation manufacturing industry is contributing to the development of China's military aerospace capabilities."

This contribution, the report later states is "increasing China's ability and possibly its propensity to use force in ways that negatively affect U.S. interests and would increase the costs of resisting attempts to use such force."

Another risk to not talking more openly and directly about America's China problem is that it leaves the field open to extreme rhetoric and populist politics.

A solid majority of Americans in opinion polls say they view China as an economic threat and if America's dysfunctional relationship with the country is not addressed more openly, some fear it could prompt a marked protectionist swing in American politics.

"It would be better to deal with issues like the undervalued renminbi more directly and openly," said Menzie Chinn, a professor of public affairs and economics at the University of Wisconsin. "I am concerned that if these problems are allowed to fester for too long, voters will force Congress into an open trade war. And that would be bad for everybody."

For instance, real estate tycoon Donald Trump has been playing the China card as he considers whether to seek nomination as the 2012 Republican presidential candidate, and his support in polls has been rising.

In recent months the garrulous star of NBC's reality show "The Apprentice" has referred to the Chinese in various national television interviews as "enemies" and "abusers" and says that he "would love a trade war with China." He told Reuters he would put a 25 percent tax on all goods from China.

"Saying China is the enemy may sound like an extreme opinion, but it can become a mainstream opinion if uttered in public often enough," said Steven Schier, a politics professor at Carleton College in Minnesota.

GREAT EXPECTATIONS

It is all a far cry from where things were back in 2000. The debate in the U.S. Congress on normalizing trade relations with China -- a step that would help China join the WTO -- saw lawmakers, lobby groups and businesses line up to stress that increased trade with China would be a win-win situation for Americans.

"Opening China's markets to U.S. products and services... is the biggest single step we can take to reduce America's growing trade deficit with China," said Robert Kapp, then president of the U.S.-China Business Council and now a consultant for companies seeking to do business with China, at the time. "We're not talking about a 'gift' for China ... we're talking about bringing home the bacon."

The bacon may have arrived in the form of the profits American companies have been able to make in China but it certainly hasn't for the American workforce.

According to the U.S. Bureau of Labor Statistics (BLS), the number of U.S. manufacturing jobs fell by a third to 8.1 million from 12.2 million during the past decade -- more jobs lost than in the previous two decades combined. BLS data also show that from the first quarter of 2001 to the first quarter of 2010, a full 39 percent of U.S. manufacturing plants with more than 250 employees closed.

Chinese membership of the WTO has been a disaster for local manufacturers, says Charles Blum, president of trade consulting firm International Advisory Services Group Ltd and an official at the Office of the U.S. Trade Representative under President Ronald Reagan.

"It doesn't really matter how small your manufacturing operation is, the sector is systematically being hollowed out," he said. "We figured the global market would take care of itself and that as a result the United States would turn out to be the winner. But it hasn't quite worked out that way."

Small businesses have traditionally been the backbone of America's economy, providing at least half the jobs, hiring more quickly when a recovery begins after a recession, and accounting for many more patents per employee than large firms.

Henry "Hank" Nothhaft, a serial entrepreneur and currently CEO of Tessera Technologies Inc, which specializes in miniaturization technologies for electronic devices, says most innovation occurs on the factory floor, so he worries that American innovation will slide with the erosion of the country's manufacturing base.

"If the manufacturing ecosystem goes, then innovation and engineering go with it," he said. "This means that future innovation is going to occur over in China and not here in the United States."

CHINA CHANGES COURSE

Meanwhile, the Chinese, if anything, have been getting more demanding.

Some business leaders and academics have noticed that the Chinese government's industrial strategy became more aggressive from 2006 onwards.

New rules "seek to appropriate technology from foreign multinationals" in key industries like avionics, power generation and high-speed rail, according to a December 2010 article for the Harvard Business Review called "China vs the World," by academics Thomas Hout and Pankaj Ghemawat.

"These rules limit investment by foreign companies as well as their access to China's markets, stipulate a high degree of local content in equipment produced in the country, and force the transfer of proprietary technologies from foreign companies to their joint ventures with China's state-owned enterprises. The new regulations are complex and ever changing."

Distracted by the financial crisis in 2008 and 2009, governments and multinationals have only really become aware of this shift in Chinese policy over the past year or so, Hout, a former partner at the Boston Consulting Group, said in a telephone interview.

"The Chinese have managed to time this beautifully," he said. "Even people like myself who have really been paying attention were caught out and it's only been clear for the past year or so what's going on."

A growing number of Western firms who thought they were getting a good deal by trading technology for access to China's market have also belatedly found out that they were mistaken.

In 2004 and 2005, China set up partnerships with Kawasaki Heavy Industries, France's Alstom, Germany's Siemens and Canada's Bombardier to build high-speed trains for China.

At first Kawasaki exported finished trains, then the group of foreign companies subcontracted the production of basic components to Chinese train manufacturer Sifang and then assembled them in China.

Then in 2009 the government began requiring that prospective bidders for Chinese high-speed rail projects form minority joint ventures with state-run manufacturers and hand over their latest designs and that 70 percent of the equipment had to be produced locally.

While aware of the flow of technology to the Chinese side, Kawasaki saw its joint venture as an opportunity to gain access to China, which was rapidly expanding its high-speed rail network. China has been by a long way the world's largest market for new rail lines in recent years.

Now, Chinese companies build faster, cheaper trains than their former mentors make and compete against them in global markets. Kawasaki has complained that trains built by Sifang are based on its own technology. Similarly, Siemens was elbowed aside by its erstwhile partner, the China National Railway Signal and Communication Corp, when it came to constructing the high-profile Beijing-Shanghai high-speed link.

Other times, technology is pilfered. Glen Tellock, CEO of crane maker Manitowoc, says that while American companies find intellectual property theft a major problem, "the answer from the Chinese is always 'what's the harm?'"

In "China vs the World," Hout and Ghemawat write that Chinese firms have "come to dominate the global silicon-wafer-panel business, aided by low-cost financing and inexpensive land sales."

Local governments provide companies with land cheaply or even free. Chinese firms are provided land grants in excess of what they need, so they build apartment buildings on the land, which then pays for research costs and offsets start-up losses. State-owned banks provide Chinese firms with loans at below prevailing interest rates and sometimes local governments pay the interest on their behalf.

Hout and Ghemawat also examine the solar panel industry, an area that the Obama administration has championed as a way to create "green" jobs for the future.

But Chinese competition pushed solar panel prices down 50 percent in 2010 from 2009, hurting Western manufacturers. China now exports most of its solar panels and Chinese firms control half of the German market and a third of the U.S. market.

China's Suntech Power Holdings Co Ltd is the world's largest solar panel maker. while Yingli Green Energy and JA Solar Holdings Co Ltd are also major competitors in the industry.

Hout says China is now seeking to catch up with Western firms in the aviation and power generation industries.

"NOT NAIVE OR STUPID"

In January, General Electric Co. announced a joint venture with Aviation Industry Corporation of China (AVIC) to develop electronics for the C919, a single-aisle commercial jetliner. That raised concerns that GE runs the risk of creating Chinese competitors through the proprietary technology it will provide as part of that joint venture.

"Multinationals are a little too optimistic about how much they can control the technology transfer process," the Brookings Institution's Prasad said. "The Chinese are very keen to build up their aviation industry and they've made it very clear what they want from GE to make that happen."

In a January 19 interview with Reuters, CEO Jeff Immelt, who also heads Obama's jobs council, insisted the company was "not naive or stupid" about doing business in China. "We really do think a lot about it," he said. "There is a multitude of ways to succeed in China. It's going to be the biggest economy in the world. The only question is when."

This tone differed markedly from comments Immelt made in July last year at a private dinner in Rome -- remarks that caused him no little trouble. "I really worry about China," he told a group of executives, as reported by the Financial Times. "I am not sure that in the end they want any of us to win, or any of us to be successful."

GE initially contested the FT report then changed tack when a spokesman said Immelt's remarks "do not represent our views."

Behind the scenes there does appear to be mounting worry among U.S. multinationals over Chinese policy. A report commissioned by the U.S. Chamber of Commerce ("China's Drive for 'Indigenous Innovation': A Web of Industrial Policies") examines a Chinese plan for science and technology from 2006 to 2020 that is "considered by many international technology companies to be a blueprint for technology theft on a scale the world has never seen before."

"Indigenous innovation" refers to a Chinese government policy designed, among other things, to favor Chinese firms for state contracts and require technology transfer if Western companies want to participate.

"With these indigenous innovation industrial policies, it is very clear that China has switched from defense to offense," the chamber report said.

During his state visit here in January, China's Hu said the country would ease up on the program. The U.S. government has since publicly stated China needs to make good on that promise, though so far it is not clear that anything has yet changed.

What has also not changed is how keen American multinationals are to get into China, even if there are long-term concerns over the conditions attached to doing business there. And their willingness to keep silent about things they do not like.

Ralph Gomory, a research professor at New York University's Stern School of Business who worked for IBM for three decades, said the problem for U.S. multinationals is that the focus on short-term profit easily outweighs long-term worries.

"The Chinese are exploiting our weaknesses," he said. "They see the strength of America as the strength of our corporations and that the driver is profit. So they have merely said bring your plant over here and we'll make sure you make a big profit."

It means that shareholders of the American multinationals like Caterpillar may be doing well in the short term -- after all its share price has doubled in less than a year largely on demand from China and other emerging markets. However, middle class Americans have not seen the benefits in terms of jobs created or wages increased.

When asked about GE's recently announced Chinese avionics joint venture and how he would look at it if he held GE shares, the

Brookings Institution's Prasad said, "If I had GE shares in my 401(k) that I intended to hold for the next 20 years, I would be very worried," he said. "But if I was just holding them for short-term gain I wouldn't be concerned. And I suspect that's also how people inside GE look at it."

CHINESE EXCEPTIONALISM

For their part, the Chinese tend to view technology transfer as being fair trade for access to its growing manufacturing base and its potential as a consumer market of 1.3 billion people.

"The Chinese response is typically that multinationals have come to China because it has a huge market," Northwestern's Shih said. "The Chinese say that in doing so 'you have implicitly signed up for technology transfer as the price of entry to that market.'"

Criticism of subsidies also tends to fall flat as the Chinese point to subsidies for key industries and the farming sector in Europe and the U.S. as proof that they are not alone in supporting their own interests.

Rejection of Chinese bids for a number of American companies on national security grounds, including California oil company Unocal, have also allowed Beijing to allege that Washington has protectionist policies. (For a special report on a U.S.-China M&A Cold War, click here: link.reuters.com/tub98r)

Certainly there is a sense that after many years of humiliation at the hands of foreign nations -- in particular in the 19th century when China was forced, in the words of the late British economist Angus Maddison, to cede a "welter of colonial enclaves" -- that the Chinese are merely returning to their place as a top power.

Just as many in the United States believe in "American exceptionalism," or the idea that the country is inherently superior to the rest of the world, the Chinese see a return to the top as their destiny.

"The Chinese feel they are returning to the level they were at 500 years ago and that it's where they belong," said Eamonn Fingleton, a writer who has been following China since the 1980s. "China sees no reason why it should not be the world's number one power."

And there are those in the United States who say that rather than fear competition from China, America should embrace and welcome it because the country's rise has been accompanied by cheap consumer goods that have kept a lid on inflation.

"The Chinese are going to move up the supply chain but they are not a threat to us," said Dan Griswold, who specializes in trade at the Cato Institute, a conservative think tank. "China merely wants to regain its rightful place among the leading economies of the world."

FEW EASY PATHS

But there are a growing number of groups that seek to address what they say is America's China problem, and they are bringing together manufacturers, agricultural groups, labor unions and even the occasional local chamber of commerce.

"We believe in free but fair trade," said Tony Paglia, vice president for government affairs at the Youngstown/Warren Regional Chamber of Commerce in northeastern Ohio, of the chamber's backing for proposed legislation that would impose duties on goods from countries that manipulated their currencies. "All we want is a level playing field for our members."

As well as handing over technology, multinationals like GE and Caterpillar have increasingly moved research and development to China, and experts like Hout worry that will cause America to lose its innovative edge.

"I'm afraid that they've managed to lure us into a bit of a trap," Hout said. "The Chinese are merely using a much older playbook and are holding our multinationals hostage."

Although American spending on R&D ($402 billion in 2010) is quadruple China's ($103 billion), Hout and Ghemawat estimate that at current growth levels China will catch up with U.S. spending by 2020. Factoring in what they estimate could be a 40 percent undervaluation for the yuan, they estimate that spending parity will come by 2016.

The real problem for America is that it has few easy alternatives when it comes to solving its Chinese puzzle and leveling that field.

Pressuring the Chinese government to allow the yuan to revalue seems a straightforward solution, for example, and is one that U.S. administrations have been suggesting for some time. Economists say a substantial revaluation would make a sizable dent in the U.S. trade and current account deficits.

But there would be a downside as well as positive consequences for Corporate America.

The large number of U.S. multinationals producing goods in China for export means that any significant appreciation would hurt their profits, said Sunil Chopra, a professor at Northwestern University's Kellogg School of Management.

One politically sensitive consequence of an appreciation of the yuan could also come in the form of higher prices for consumers at retail stores, which would hurt poorer people hardest. "We get a major rise in import prices from China, who does it hurt the most?" Mesirow's Swonk asked. "People who shop at Walmart and Target."

Hout said that although the Obama administration has been more vocal about problem issues with China than his predecessor George W. Bush, America needs to take far bolder action.

"The United States is so wedded to the multinational processes of the WTO, which take forever and provide only rifle shot results," he said. "We've got all this stuff fleeing the United States and we've been very inactive when it comes to playing hardball."

"The obvious reaction would be to rely on reciprocity," he added. "If the Chinese insist that American firms have to form joint ventures in China and have to adhere to local content requirements, then the U.S. government should enact requirements for Chinese firms wishing to ship goods here that they must do likewise. But we've seen nothing from the U.S. government."

GETTING TOUGH

Others recommend getting tougher with China in the same way President Reagan got tough with Japan at times, by being willing to impose more customs duties or file more cases through bodies like the WTO.

Reagan, with the backing of his Commerce Secretary Malcolm Baldrige and a number of CEOs angry over Japanese trade policy, was unafraid to impose duties on Japanese goods. Reagan also brokered a semiconductor trade agreement with Japan that prevented the dumping of Japanese semiconductors on the U.S. market.

"They (Reagan and Baldrige) were the most activist leaders for a long time in defending U.S. manufacturing and took action necessary to do so," said Gil Kaplan, an international trade lawyer who worked in the Reagan administration. "They realized that we need a manufacturing sector in the United States."

Kaplan said that although proponents of free trade fear a trade war with China would be inevitable if the U.S. government took a tougher line on unfair subsidies, "we need to demonstrate that we are not afraid to take action."

"We do have to act now," he said. "At some point in time we're going to reach a tipping point where we won't be able to come back. In some industries so much of the supply chain has gone that it's going to be difficult to come back."

Kaplan and others say the government's actions do not necessarily have to be limited to taking action against the Chinese, but could take the form of greater support for American manufacturers.

A common practice in developed nations, for instance, is to have a Value Added Tax that provides manufacturers with tax rebates as an added incentive to export goods.

"We don't just have to focus on the negative," said Tessera's Nothhaft. "We can find ways to support our own companies and make the playing field a little more level."

For many local manufacturers, the lack of a real public debate is discouraging to say the least. They feel disenfranchised, outgunned and outmaneuvered by the influential U.S. multinationals who argue for more free trade while small manufacturers want fair trade as well.

"The politicians in Washington don't represent you and me, they represent the special interests who pay their bills," said Richard Gill, president of Polyfab Corp, a plastic molding company in Sheboygan County, Wisconsin. "Our decline is not inevitable. We can still turn this around. But things are going to get a lot worse if we don't do the right things to stop it."

Carleton College's Schier said "increased middle-class radicalism" shown by the power of the conservative Tea Party movement will likely be followed by increased radicalism in general as more voters are hurt by the decline of manufacturing and the lack of jobs more than two years after the height of the financial crisis.

"America's political elite would rather not give the debate much oxygen because they haven't come up with any real solutions," Schier said. "But the majority of the public has a sense there's something very wrong with our relations with China."

"It's a prescription for chronic instability," he said. "You can't build a long-term working majority in a situation like this. Voters are going to zig and zag and we'll likely see backlash after backlash." (Additional reporting by Terril Jones in Beijing; Editing by Jim Impoco, Martin Howell and Claudia Parsons)