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## As China Stirs Economy, Some See Protectionism

By [KEITH BRADSHER](#)

HONG KONG — China has begun a concerted effort to keep its export economy humming, even as demand for its goods has plummeted with the global downturn.

Risking the ire of the United States and other trading partners, the Chinese government has quietly started adopting policies aimed at encouraging exports while curbing imports, even though China, as one of the world's largest exporters, has aggressively criticized [protectionism](#) in other countries.

The government has sharply expanded three programs to help exporters, giving them larger tax rebates, more generous loans from state-owned banks to finance trade, and more government-paid travel to promote themselves at trade shows around the world.

At the same time, Beijing has banned all local, provincial and national government agencies from buying imported goods except in cases where no local substitute exists.

The rule, issued as part of the country's economic [stimulus plan](#) and enforcing a seldom honored Chinese law from 2003 favoring domestic suppliers, exploits China's failure so far to sign a global agreement barring protectionism in government procurement.

And in an effort to strengthen its own exporters, it is limiting how much of certain key raw materials can leave the country.

Ron Kirk, the United States trade representative, announced on Tuesday that the United States and the [European Union](#) had filed a complaint with the [World Trade Organization](#) accusing China of limiting exports like bauxite and zinc, of which China is one of the world's largest producers, to give an unfair advantage to Chinese manufacturers that use the materials.

China denied Wednesday that it had broken W.T.O. rules in the dispute, but the issue is likely to feed criticism of China. "China is not only continuing but accelerating many of the protectionist approaches they've taken in the past to promote economic development," said Michael R. Wessel, who was appointed by [Nancy Pelosi](#), the speaker of the House, to the United States-China Economic and Security Review Commission.

The policies could help ensure that China's economy continues to grow, but at the risk of increasing global trade tensions at a sensitive time when more countries are resorting to administrative measures to restrict

trade and the W.T.O. has warned against protectionism.

The policies also fly in the face of China's own promises and incentives to build an economy based on domestic consumption as well as international exports.

"The focus on maintaining export competitiveness to prevent job losses is clearly trumping longer-term considerations of rebalancing growth and reducing reliance on exports," Eswar S. Prasad, a senior fellow at the [Brookings Institution](#) in Washington, wrote in an e-mail message. "But this is a dangerous strategy. Protectionist measures, both explicit and implicit, could be difficult to pull back."

In other moves, Beijing has halted the rise of the renminbi against [the dollar](#) by intervening heavily in currency markets, dumping billions in renminbi and buying dollars and other currencies.

Provincial governments also appear to have cut back on their enforcement of counterfeiting laws and other intellectual property protections. Chinese consumers have less need to buy imported goods when they can buy much less expensive copies manufactured locally.

In March, Prime Minister [Wen Jiabao](#) announced that his country would rely on domestic consumption to keep the economy growing as exports shrank in the global downturn. The pronouncement was greeted with a mixture of delight and skepticism by economists and governments the world over, but the skeptics appear to have been borne out.

Despite the havoc the global downturn has wreaked on export-driven economies — exports are down 45 percent in Japan — China's exports to the United States fell only 12.1 percent in the first four months of this year, compared with the same period last year.

Over the same interval, American exports to China dropped 17.2 percent.

Yet the American trade deficit paradoxically narrowed to \$67 billion, from \$75 billion, for these periods. That is because the trade is so lopsided that a shrinkage of overall trade results in a smaller deficit even when American exports drop faster.

The United States imports more than \$4 worth of goods from China for every \$1 of goods that it exports to China.

Chinese officials and economists are quick to defend their country's policies.

Qiao Yu, an economist at Tsinghua University, said that China did not produce some kinds of equipment and would need to import them. "I think there is room for foreign producers to take some shares of the stimulus package," he said.

Taking just one example, Li Junfeng, an official at China's top economic planning agency, said recent complaints from foreign wind turbine manufacturers about domestic purchasing rules were without merit. These manufacturers have factories in China and can use them to fill Chinese orders, he said.

Moreover, Mr. Li said, many purchasing officials in China have a reflexive preference for foreign brands and fail to consider domestic alternatives.

Mr. Li's agency, the National Development and Reform Commission, ordered on June 4 that government agencies buy only Chinese goods of all types with money from the government's stimulus program. Yet early this year, China criticized a much narrower preference for American-made steel in Mr. Obama's economic stimulus plan.

Under the rules of the World Trade Organization, China is prohibited from discriminating by nationality in the purchasing of goods — except for government procurement, which is covered by a separate W.T.O. agreement that virtually all industrialized nations have signed. When China joined the W.T.O. in November 2001, and gained full access for its exports to foreign markets, it pledged to join the agreement on government procurement “as soon as possible.”

Subsequent talks in Geneva produced no progress, leaving China, with its enormous state sector, free to favor domestic suppliers in government contracting.

At the same time, the plunge last winter and this spring in Chinese exports has resulted in a shift by many Chinese factories from exports only to a shared reliance on export and domestic markets, said Merle A. Hinrichs, the chairman and chief executive of Global Sources, a Hong Kong company that connects Chinese suppliers with Western buyers. These factories do not always pay licensing fees for patents transferred to them for exports but then used to supply the domestic market.

Richard Gould, the manager of southern China operations at CBI Consulting, a Shanghai-based investigative firm specializing in intellectual property, said cutbacks in enforcement of intellectual property laws stemmed in part from policies aimed at temporarily reducing the regulatory burden on Chinese businesses.

No reliable data are available on counterfeiting in China, however. Because it is illegal, companies do not report figures. Estimates are based on the value of goods seized in police raids.

Counterfeiters “have a very good sense of the legal system,” Mr. Gould said. “They really don't think they're going to be raided.”

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