US-China crisis? WHAT CRISIS?

Tainted toys, laced food and contaminated drugs, all made in China and being pulled off the shelves of US departmental stores. And in a tit-for-tat move, China has stepped up checks on US products. Are the US and China headed for an all-out trade war or is it just the posturing of giants? Asia Inc talks to Myron Brilliant, Vice President, East Asia, US Chamber of Commerce, which is responsible for developing, promoting and executing the Chamber’s programmes and policy to US trade and investment in Asia. In 2001, Brilliant formed the US Chamber’s China WTO Implementation Working Group to monitor China’s efforts to open its market to foreign goods and services. From 1998-2000, he served as co-chair of the Business Coalition for US-China Trade during the campaign to secure congressional passage of permanent Normal Trade Relations with China.

A recent Pew Global Attitudes Survey found that public attitudes in the US toward China’s economic and military rise are turning more negative. Should China be viewed as a threat? Brilliant: My sense is that China’s transition to a market economy is happening and is ultimately a good thing for the world economy and a good thing for China in terms of how it interfaces not just on economic issues but on political, military and other issues that are of global significance and so we in the US has to find every opportunity to engage China constructively and pragmatically. We need to work with China when it comes to issues like global warming, when it comes to healthcare, when it comes to trade policies, but we also need to draw standards with China. We need to make sure they comply with international standards, and that they are a responsible player on the global stage. But I don’t think we should view China as a threat. I think we should view China as an inevitable and find ways to engage China that will encourage it to strengthen its commitment to the international system.

With all eyes on China’s rising economic weight, does Southeast Asia risk being overlooked by the chamber? China has its strong interest in developing its commercial and political ties in South-East Asia and there is no question that President Hu Jintao has put some emphasis on South Asia and you see that in the economic partnerships that are developing with China and Asean. I think that makes a lot of sense for China and I think Asean countries probably as a whole welcome the engagement. First of all, I think it is opening up China’s market to its products and services and secondly, I think it strengthens the ties between Asean and China at a time when, perhaps, capital and investment are needed from China and, frankly, as China’s market is developing, it is creating export opportunities for Asean companies. So, I think that’s a win-win situation for the region. Now, from a US view or perspective, you want to make sure you’re engaging in the development of an architecture that enhances economic growth in the region. And we’re at the table, that we are part of it, that we are ensuring the liberalisation that is taking place in the region is consistent with international standards, that does not undermine US interests. And I would argue that we have a political as well as economic need to ensure that the US presence in this region remains very high, very visible and very consistent.

Some economists predict the US will impose trade sanctions on China before the year-end. What do you think? We are very aware of the dynamics we have in Washington. There is certainly on Capitol Hill a wider concern about China’s intellectual property record and there are those in the Congress who believe that China’s currency is very undervalued and want to see China move more rapidly to a market-based currency regime. There are those in the Congress who feel China is not abiding by international rules which is why we are in an environment where we have a very large trade deficit with China, and one that is growing. With this structurally-imbalanced relationship, there have been calls for action to try to correct it. I will tell you that our general view is that while China falls short of its obligations, we need to have dialogue here and there are opportunities to move here and there and so I will be able to - to WTO consistent tools to address that and we have sent people to the area of intellectual property where China has been taken by the US to the WTO process. I think that’s the correct approach.

Where Congress tries to act in a way that could undermine US interests in China as a region and, in fact, doesn’t really materially move the ball forward, we would discourage those kinds of initiatives. Yet I would say that it is very likely that in this environment, we will see some China legislation. How much that legislation really has an impact on the relationship is unclear. A lot of it will be rhetoric. A lot of it will be about providing the US government with a sense of direction from the standpoint of the Congressional leadership and I would encourage China not to overreact to this legislation but at the same time, I would encourage our own lawmakers to reframe where our long-term interests are.

Morgan Stanley Chief Economist Stephen Roach said China may allow its yuan to trade freely after the Beijing Olympics in 2008. What do you think? I think China recognises that it needs to reform its financial sector. It is very worried about its financial sector. It should be worried. It is worried about obviously overheating in the economy, worried about the growth of its currency, worried about the growth of its banks and part of its financial system that can deal with foreign competition. China should embrace expertise from abroad, it should embrace reform and it needs to move in that direction. How quickly? It opens up its currency regime to make it market-based is unclear but it is very important and it moves in that direction and that continues to make steps in that direction. We feel that China’s currency issue needs to be looked at in a broader context and what we are looking for is continued reform of the capital markets of China.

To continue to liberalise their markets in a way that would allow foreign banks to bring their expertise, and obviously their capital, to encourage that kind of development. I think it’s in China’s interest and with respect to the currency itself, we believe that China should continue to relax its currency and I think we have seen some appreciation in the Chinese currency — not enough to deal with the political dynamics but certainly in the sense that they recognise they need not only to widen the band and eventually move to a market-based currency, I do not believe you can set a timetable. You can encourage China to move in the right direction and you can encourage China to put the kind of reforms in place that will allow for the market-based currency regime to take place sooner rather than later but it is inappropriate to say “six months to a year”. I think those kinds of arbitrary deadlines do not take into consideration the circumstances that are underway in China.

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Myron Brilliant, Vice President, East Asia, US Chamber of Commerce.