



STRATEGY

China View: Tough Talk or Soft Touch?

April 4, 2007

Christopher Bjorke, AFP

ABOUT THIS ARTICLE

This copy is for your personal, non-commercial use only. Any other use of this article is strictly prohibited.

Are Washington's Mr. Nice Guy days over?

U.S. officials worked hard to bring China into the World Trade Organization in 2001, and its accession was a boon for all sides, according to free traders: Multinational companies can tap into China's cheap labor and 1 billion customers, and China can enter new markets for its exports.

And WTO rules will force China onto a level playing field, abandon state-run industrial dinosaurs and fully embrace the free market. Right?

China's adherence to remnants of a state-run economy—artificial currency controls, state-owned industries, and subsidies for key industries—has been a touchy subject in U.S.-China relations. Caught up in worries about losing or saving face, the favored approach has been to softly chide Beijing to live up to its WTO promises.

That has been the strategy of Secretary of the Treasury Henry Paulson on his visits to China since he was sworn in last July. In his visit in March, Paulson suggested that China do more on sensitive issues before power in the U.S. shifts to groups with stronger anti-China feelings.

And then the U.S. Commerce Department announced new anti-China tariffs March 30.

A message for whom?

The new tariffs, which go as high as 20%, are aimed at Chinese glossy paper exports into the United States and based on Commerce's contention that they are unfairly subsidized by the state. The department had no choice but to act, officials said.

"The Chinese economy is replete with subsidies," Undersecretary of Commerce for International Trade Franklin L. Lavin was quoted as saying in the Washington Post. "It gives the Chinese exporters an unfair advantage in the U.S. market, and we're determined to do what we can to unwind that advantage."

According to Usha C.V. Haley, director of the Global Business Center at the University of New Haven, the extent to which state-owned enterprises and politically connected private companies are supported by the government is vast and well-concealed. What is known now is "just the tip of the iceberg."

"There are enormous market distortions these arrangements bring about," said Haley, who has testified before Congress and the U.S.-China Commission on the extent of China's subsidies. She supports actions such as the new tariffs as a way to goad Beijing into making its business practices less opaque.

"It will bit by bit, step by step. It shows we're doing something about the problem," Haley said.

Future targets for tariffs could include plastic, steel, textiles and machinery.

Others believe that the new tariffs were a message for an audience closer to home. The Democrats now controlling the U.S. Congress flirted last year with the Schumer-Graham Bill calling for 27.5% tariffs, and they are likely to take an aggressive stance this year. Last week's move by Commerce may have been a way to shore up a Republican weak spot.

But acting tough for the sake of domestic politics may backfire. For a rising superpower, China can be defensive about its status, and often portrays itself as just another Third World country trying to get ahead while the United States and other rich countries are trying to keep it down.

James McGregor, author of the book "One Billion Customers," wrote in a Wall Street Journal opinion piece in 2006 that U.S.-China relations are on course for a collision if the agenda is set by the most aggressive elements in the two countries.

He wrote then that polite diplomacy was the best path, and the best person to lead the effort was Henry Paulson.

Copyright © ChinaForum 2007