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PACIFIC BUSINESS NEWS

LATEST NEWS

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Turbulence seen for Sino-U.S. relations

The U.S. trade deficit with China, which was less than \$30 billion in 1994, topped \$120 billion in 2003. The president of the China-Hawaii Chamber of Commerce says this is generating turbulence in a bilateral relationship that is otherwise developing positively.

"Trade is only one piece of the complex puzzle of China-U.S. relations, but it is important one," Johnson Choi said in a letter to the business communities of Honolulu and Hong Kong. "In this regard, 2004 appears to be a year characterized by growing friction."

Choi said the fact that it is an election year increases pressure on President Bush to stem the flood of imports from China. "One issue," he said, "will be whether he can demonstrate that he cares about America's blue-collar workers. Therefore, increasing China-U.S. trade friction is virtually pre-programmed."

But tensions will continue after the elections, Choi said, since on Jan. 1, 2005, textile and apparel quotas will be eliminated and Chinese exports of these products to America can be expected to surge. "It requires no special analytical abilities to predict that textile and apparel trade is likely to remain a source of bilateral trade friction," Choi said.

China is a fairly new member of the World Trade Organization, winning added access to world markets by agreeing to opening up its own. But both the World Semiconductor Council and the U.S. Semiconductor Industry Association have registered formal complaints that China is using valued-added taxes to keep other nations' semiconductors out of Chinese markets. Choi said a formal WTO complaint about this is likely this year.

The overarching trade issue, however, is China's policy of refusing to let its currency, the yuan, float freely on world currency markets. Undervalued by perhaps a third -- estimates actually vary widely -- the yuan makes Chinese labor cheap to hire, and Chinese products cheap to buy, when paid for with money that starts out as dollars or yen. The imbalance also artificially raises the price of international goods sold inside China. As a result, many of the world's biggest companies have shifted production lines to China, costing jobs in America, Japan, Korea, Europe and elsewhere. Economists used to describe the U.S. economy as a mystifying "jobless recovery," before figuring out that the recovery was indeed generating jobs, but the jobs were in China.

Choi reports that several U.S. industries are preparing petitions to investigate the legality of what China's currency policies. An alliance of 40 trade associations and labor unions has hired, among others, the lawyer who negotiated on behalf of the United States in China's talks to get into the World Trade Organization. The National Association of Manufacturers is preparing a separate petition on its own. Choi thinks little will come of these petitions, "since the U.S. Treasury Department reported as recently as last autumn that China is not engaging in currency manipulation." Sen. Charles Schumer (D-N.Y.) has introduced a bill, with bipartisan backing, to impose 27.5 percent tariffs on Chinese goods unless China floats the yuan. Choi said it is unlikely the bill will pass. But he notes that "conventional wisdom has it that the Bush administration will launch at least one WTO complaint against China this year."

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