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Warning to American CEOs thinking about doing business in China: Tread cautiously. The current furor on Capitol Hill over exports of satellites, the upcoming annual congressional brouhaha over human rights and most-favored-nation status, and whatever other controversies surround President Clinton's summit in Beijing later this month make for nasty enough politics.

Even worse, China appears to be heading for an economic crisis. Its growth, its exports, and incoming foreign investment are rapidly losing steam. Beijing is struggling to restructure an insolvent banking system, shut down thousands of bankrupt state companies, and cope with some 5 million newly unemployed workers. As economies in Asia contract, the Middle Kingdom is increasingly vulnerable. The business climate could deteriorate quickly.

A decade of unrelenting trade battles with the U.S. lies ahead, especially as the bilateral trade deficit soars. China is, after all, a long way from being a free-market country. Its currency, the renminbi, is not fully convertible. Two-thirds of the country's investment spending is state-directed. China maintains huge protectionist barriers in industries such as finance. It still fails to protect intellectual property rights fully.

Big conflicts with Taiwan loom as well. Within 18 months, the island could elect a leader who supports political independence from the mainland. This would put the U.S. in an agonizing position of choosing between a rising superpower and a small nation that is a loyal ally, a democracy, and a market economy. Congressional support for Taiwan will certainly be intense. So will China's reaction to American intervention.

SHORT-TERM GOALS. America's ability to deal with problems like these will be severely undercut because policy toward China is being driven by the swirl of Washington's short-term political currents. One day the congressional preoccupation is human rights, another day it's illegal campaign funding, the next it's high-technology exports. These are serious issues--and each is horrendously complex. Are fiber optics a commercial or military technology? How does one evaluate progress on human rights in a

society of 1.2 billion people emerging from totalitarian rule? Dealing with every problem as if it were the only issue is a sorry way to manage America's relations with the world's second-most-important country.

All this adds up to Corporate America getting hit in China. U.S. companies need a consistent, long-term China policy from Washington. But as long as Capitol Hill acts the way it does, they won't get it. Paradoxically, despite all the talk about the rise of global markets and the declining power of governments, Corporate America and Washington need one another in China.

The most powerful influence that Americans can have on China will be U.S. companies bringing their products, technology, and management. At the same time, Washington's clout will be needed to maintain pressure on Beijing to open its markets and create laws that are clear and fair. Cooperation between U.S. corporations and Washington will be particularly critical when China experiences some of the turbulence that has infected other big emerging markets such as Mexico, South Korea, and Indonesia.

SATELLITE FRENZY. It would therefore be a shame if the frenzy over satellites in Congress undercut or even forced the postponement of President Clinton's summit, the best opportunity in a decade to build constructive ties between the two countries. Since last October, when China's President Jiang Zemin came to Washington, the Administration has emphasized expanding American business dealings with China, promoting democracy and the rule of law, and encouraging more cultural and educational exchanges. It has attempted to keep any one issue from throwing the U.S.-China relationship off course. It has tried to cultivate China as a partner rather than make it feel like the enemy. These were exactly the right goals. For its part, China has acted responsibly in putting Asia's--and America's--economic interests above its own in not devaluing the renminbi. It has also freed key political dissidents, and it is now in a position to help defuse the threat of nuclear war between India and Pakistan.

Fact is, there will be no winners from the arguments flaring in Washington--not Congress, not the Administration, not Corporate America, not China. In describing how the U.S. dealt with the most powerful up-and-coming nation of the 21st century, future historians are bound to marvel how America, at the height of its economic and political prowess, could have so miscalculated

its own long-term interests.

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