

Personal View • Jeffrey E. Garten

Time to stop trading threats

The US's hardline approach to China could have serious consequences, with no easy solutions



There is an air of Greek tragedy surrounding the problems building up between the

US and China over trade, with all signs pointing to a dangerous escalation of tensions and no plausible way out.

Three issues are at play. Most immediately, Washington is poised to impose billions of dollars of tariffs on Chinese imports because of Beijing's failure to implement agreements on the protection of intellectual property rights. The Clinton administration points to China's failure to close plants that are pirating US recordings, films and other such products.

At the same time Congress is gearing up for its annual debate over the extension of normal trading privileges for China - so-called Most Favoured Nation treatment. The vote, which must take place this summer, promises to be close at best, and could well emerge with Most Favoured Nation status tied to restrictions that China would find politically onerous.

Finally, the US is taking a tough stand against China's entry into the World Trade Organisation. Washington believes Beijing has yet to open its economy far enough as well as to commit itself to the organisation's obligations. There is little or no flexibility

in the American hardline position, particularly in an election year.

Having just returned from China where I had a chance to talk quietly to a variety of influential people, including some senior leaders in government, it is clear to me that Beijing's position is equally entrenched. There is a widespread feeling that China has travelled an enormous distance when it comes to the transition from a closed to a market-oriented economy. The Chinese believe that America is asking too much, too fast.

They admit they have a long way to go to open their economy further and to enforce their laws. But they deeply resent Washington's constant scolding and repeated threats of sanctions as a remedy for every problem.

The risk now is of a downward spiral in which the US makes good on its threats and China attempts to retaliate. There is simply no historical precedent for one powerful

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nation treating another with constant threats while still retaining a viable relationship.

The fact is China is a bigger player on the global economic stage than is generally realised. In addition to being the world's second-largest recipient of foreign direct investment, its imports and exports are each running at more than \$100bn per year and rising fast. Within a decade, China will be joining the US, Japan, Germany, France and UK as one of the world's six largest traders.

Given the importance of trade relations to both sides, a rupture on these issues could lead to a deterioration in the relationship between the two countries across the board. At risk would be co-operation to contain a dangerous North Korea and any chance of collaboration on nuclear non-proliferation.

A new cold war could emerge in Asia, but this time the US would find itself without the support of Europe and Japan. Neither would wish to pursue a hardline strategy towards China and both would attempt to curry commercial advantage with China in the wake of Washington-Beijing tensions.

Other Asian nations will hedge their bets, taking sides and building up their armies, based on calculations as to which of the two they will need the most - or fear the most - in the 21st century. The political fallout over diverging approaches to China and growing anxieties in Asia would spell enormous trouble for international relations as the next millennium approaches.

Both the US and Chinese

economies would suffer, but more important, the entire trading system should be at great risk. Exports are crucial to China, which relies on the US for 30 per cent of its overseas sales. Were these to be disrupted, Beijing would attempt to flood other markets with its low-cost manufactures - almost certainly creating a gigantic wave of protectionism in retaliation, particularly in Europe.

China might attempt to use the enormous leverage of its market to conclude bilateral trade deals, further weakening the prospects for a multilateral trade liberalisation based around the World Trade Organisation. Commercial greed - stretching from France to South Korea - would ensure there would be many quiet takers. And if the US were to be shut out of the world's biggest emerging market, the American public mood could turn sour on the evolving liberalisation of the global trading system.

These huge risks make it imperative for the US and China to strive to rise above their differences by negotiating a new, comprehensive and less confrontational relationship. Given the mood and political constraints, that would require a truly Herculean effort. But both sides ought to understand the alternatives: a serious train crash or reliance on muddling through, which is the approach that got the two countries into the mess they are in today.

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