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Why the west must regulate China's exports

Jeffrey Garten

The escalating safety problems from Chinese exports of toothpaste, toys, tires and seafood is a deeply disturbing trend. The policy agenda is formidable.

Since Richard Nixon's first trip to Beijing, the west has wanted China to be fully enmeshed into the global economy. Few would have envisioned how quickly and extensively this would happen. It is now clear, however, that integration occurred without the proper domestic economic and social foundations – a recipe for big trouble.

Yesterday, Beijing executed its former head food and drug official for bribery, but this is an extreme and unsustainable solution, if not a barbaric one. The fact is, China's entire regulatory system is far from being up to western standards. It is not just that Beijing needs a better food and drug agency, important as that might be. Defective food is often a result of horrendous industrial pollution that has seeped into the water and soil. A new industrial model, one that allows for rapid growth but deals with the environmental consequences – while mitigating the damage of the past – will be necessary but awesomely challenging. There is rampant counterfeiting of products, most of which circumvent inspection altogether. Only a permanent crackdown on violations of intellectual property protection will suffice, but progress on this front has been elusive for more than two decades.

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Massive corruption at the local level causes officials to turn the other way. It is not clear that Beijing can control this cancer.

The logistical system for food transportation is problematic, including a lack of refrigeration. With \$1,200bn in foreign exchange reserves, China can cure at least this problem with investment. Nevertheless, the country lacks

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significant consumer advocates to blow the whistle; it does not have trade associations that police their members according to world standards; and its investigative media is not free enough to take on the government. Fixing all that could take at least a generation.

A second problem is that the west has failed to prepare for China's entry into the global economy. Washington has negotiated a raft of big trade agreements during the past quarter century, but it has not dealt with the need to upgrade regulatory vigilance. Exhibit A is the US Food and Drug Administration. Over the past decade the number of products it has inspected has tripled while its budget has remained flat. Exhibit B is the Consumer Product Commission, where staff have been cut and budgets reduced by at least 10 per cent over the past few years.

Larger budgets and better trained and remunerated personnel are only a start. The FDA inspects only 2-3 per cent of all incoming food. It now needs a dramatically new approach based on more intelligent risk assessment. It should not just spot-check incoming products but also demand from foreign countries with sub-par regulatory regimes vastly more information on how products are made, what ingredients they contain, how they are tested and how they are transported. In those countries, inspections should be extensive and intrusive. Most likely, a new bilateral treaty will be needed for the

FDA to operate effectively in China.

America must also take a hard look at industrial self-regulation – the responsibilities of companies and trade associations to make their own investigations about product safety and to take appropriate action to mitigate risks. The burden is on US companies to act more forcefully than they have. Otherwise, government will take up that responsibility. Let us recall that when Washington examined self-regulation in the accounting industry in the wake of Enron and WorldCom, it chose to set up an oversight agency.

Finally, more co-ordination among national authorities is required so that global supply chains do not result in defective products travelling through unregulated channels. The system is no better than the weakest link.

It will be argued by some that a robust regulatory agenda will constitute protectionism, and this danger exists. However, few would deny that effective regulation on a domestic level is part of any modern economy, nor that with global trade growing twice as fast as global gross domestic product, the distinction between what is domestic and what is international has become blurred. Unfortunately, too, the rapid growth of global commerce that transmits life-threatening products is surely the fastest way to cause governments to erect trade barriers. Time for the regulators to get cracking.

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