

More In This Issue

* PUBLICATION

"Cebu Meetings, U.N. Veto on Myanmar" by Robert Sutter and Chin-Hao Huang
Rising Star: China's New Security Diplomacy (Brookings Press, 2007) by Bates Gill

* CONFERENCE

April 12 China Export-Import Bank's Lending Practices in Africa

* FREEMAN FACTS

Environmental Health in China
(cont pg 5)

Quote Of The Month

"Over the last few years, the amount of manpower and work that China has put into protecting intellectual property rights and the results achieved have been unprecedented."

~ Chinese Vice Premier, **Wu Yi**, responding to the U.S. action to file complaints to the World Trade Organization over alleged commercial piracy in China. Beijing denounced Washington's move and warned that complaints would damage bilateral trade ties. Madame Wu added: *"At the moment, China's burden is heavy and the road is long, with relatively little of its own intellectual property, weak competitiveness, continuous piracy disputes and a prominence of fake products."*

Source: China Daily, April 24, 2007

Trivia Question

What is the illiteracy rate among young and middle-aged people in China? *(cont pg 3)*

For other additional resources on China and East Asia, please also visit the website of our sister institution, Pacific Forum CSIS, at www.csis.org/pacfor/.

FEATURE ESSAY

Gaining Perspective on U.S.-China Trade

BY GRANT D. ALDONAS

With the U.S.-China Strategic Economic Dialogue slated to take place later in May, the many economic frictions in the relationship will generate even greater political attention – and political caricature – in the coming weeks. But much of the current economic friction in the U.S.-China bilateral relationship has more to do with the broader phenomenon of globalization. Yet, it is far harder to identify the villain in that drama when another country such as China offers a far more politically attractive target.

The world economy is undergoing fundamental changes as a result of a revolution in computing, communications, and transport technology. Lower barriers to trade, the end of the Cold War, and the emergence of a number of developing countries – including but not limited to China – have reinforced the revolution in technology. Taken together, those trends have largely conquered geography as an economic barrier, driving the rapid integration of global markets for goods, services, labor, capital, and ideas.

The rapid integration of global markets allows firms to tap a global supply chain to remain competitive globally. Global integration offers consumers a wider range of higher quality, lower cost goods, thereby raising their living. The price effects of global integration dampen inflationary pressures, which would otherwise force central banks to raise interest rates and slow economic growth.

That said, globalization has, at the same time, accelerated the pace of economic change, compelling markets, firms and workers to make often difficult adjustments. Not surprisingly, the wrenching changes generated by globalization also generate pressure for protection.

And, that is where political caricature comes in: It is far easier to paint a Chinese face on globalization and call for new trade restraints than it is to confront the challenges posed by *(cont pg 2)*

In The News

TOKYO Chinese Premier Wen Jiabao completed a three-day visit to Japan, a mission intended, in his words, to "melt the ice." Premier Wen's visit, the first one by a Chinese leader after seven years of estrangement and tension between Beijing and Tokyo, was described by both countries as an important step forward in repairing diplomatic relations. Premier Wen and Japanese Prime Minister Shinzo Abe held talks and issued a joint statement which promised to increase cooperation in economic, energy, environmental and military matters. The long-delayed visit suggests a new willingness by China to play down historic and strategic differences in favor of stable relations between the two countries.

BEIJING The State Council – China's cabinet – issued a landmark regulation to boost official transparency by ordering government departments to be more open in reporting information. The regulation, which takes effect on May 1, 2008, is expected to mark a dramatic change in the disclosure of official information in China. Governments at various levels are required by the new regulation to release information which "affects the immediate interests of individuals and groups" or which "should be known by the masses" within twenty working days. Yet, the regulation contains potential restrictions for public disclosure, stating that information that affects state security, public safety, "normal economic operations", and social stability should not be revealed.

globalization. Political caricature, of course, is not solely a U.S. phenomenon. It is also far easier in a Chinese context to paint an American face on the process of global competition in order to justify product standards that block entry of U.S. goods or the imposition of restraints on U.S. investment than it is to confront fully the need for serious domestic economic reform in China.

The reality of U.S.-China trade is far different than the heated political rhetoric suggests. For example, look at the size of two-way trade between the two relative to the size of either country's economy. Two-way trade rose to \$285 billion in 2005. As large as that number appears, it is dwarfed by the size of the U.S. economy. U.S. GDP reached \$13 trillion in 2005, meaning our trade with China accounted for less than 2 percent of U.S. GDP.

There are other ways to make the same point. Canada's exports to the United States alone are greater than the combined two-way trade between United States and China. The United States' manufacturing sector, which many commentators had long ago given up for dead, produced roughly 13 percent of the U.S. GDP in 2005 or \$1.7 trillion – roughly three-fourths the size of the entire Chinese economy.

Put another way, trade between the United States and China is far less significant in terms of its economic impact than critics in either country suggest. The United States' economic future is being written at home, not in China, just as China's economic future is being written in China, not in the United States. If that is the case, what are the challenges we face and what policy tools do we have to shape our future in the face of globalization? Interestingly, the United States and China actually face very similar challenges.

Both the United States and China have aging societies. Both are seeing a significant compression of earnings at the low end of the wage scale and a resulting skew in the distribution of wealth. Both have to grapple with the rising cost of energy and the costs of environmental damage. And, both face the need to increase the flexibility of their economies in order to adjust to the demands of global competition.

Any one of those factors offers the United States and China ample grounds to cooperate in an effort to build a stronger bilateral trade and investment relationship and a stronger rules-based international trading system. Given the economic challenges we both face, our paramount concern must be to raise our productivity. One of the main drivers of gains in productivity is the opportunity trade offers us to specialize in what we do best and reap the rewards of increased efficiency and economic growth.

In China, perhaps the most important challenge is creating a capital market that prices risk accurately and encourages much more efficient use of scarce capital by employing it in those activities that generate the highest economic rate of return. Instead, however, China's capital market today is made up of large predominantly state-owned banks that frequently lend for political, rather than economic, reasons and continue to operate with an abnormally high rate of non-performing loans. All of which is paid for by imposing capital controls so that individual savers in China have few options but to put their money in to those same state-owned institutions.

The net effect is to lower the cost of capital in China, which favors capital intensive industries (read manufacturing) and to generate tremendous amounts of excess capacity. Opening the Chinese market broadly to U.S. financial service providers with stronger balance sheets than the Chinese state-owned banks would help drive greater efficiency in China's capital market, offer Chinese savers a higher rate of return on their savings, spur domestic demand (as opposed to an economy that is largely driven by export demand) and a more stable and prosperous economic future even for those on the low-end of the wage scale in China.

From a U.S. perspective, we are already reaping much of the benefit of Chinese exports to the United States (too much, the critics would say). The challenge for the United States is whether it can remain open and continue to reap those benefits. In other words, can we recognize that a U.S. firm that can draw on the strengths of manufacturing operations in both the U.S. and China is likely to be better able to compete in what is a global, rather than bilateral, competition?

It will require real political leadership on both sides of Pacific to continue to build a healthy and stable economic relationship between the United States and China. The truth is that much of that work has to be done at home, rather than at the negotiating table.

What we should earnestly try to avoid is allowing political caricature to obscure the choices we must make and, in the process, cripple our ability to use our bilateral trade as a means of improving the economic prospects, particularly at the bottom of the economic pyramid, in both China and the United States.

Grant D. Aldonas holds the William M. Scholl Chair in International Business at the Center for Strategic and International Studies.

PUBLICATIONS

"*Cebu Meetings, U.N. Veto on Myanmar*," Comparative Connections, CSIS Pacific Forum, vol. 9, no.1, April 2007

By **Robert Sutter**, Visiting Professor of the School of Foreign Service at Georgetown University, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

The essay examines key developments between China and its neighbors in Southeast Asia for the first quarter of 2007. China advanced relations with Southeast Asia during ASEAN-related meetings in Cebu. China's veto of a U.S.-backed U.N. Security Council draft resolution on Myanmar and Chinese military advances, including a controversial anti-satellite test, occasioned little apparent negative reaction among Southeast Asian governments.

[Click here for a PDF copy of the essay.]

Rising Star: China's New Security Diplomacy. Washington, D.C.: Brookings Institution Press, 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS

China's diplomatic strategy has changed dramatically since the mid-1990s, creating both challenges and opportunities for other world powers. Through a combination of pragmatic security policies, growing economic clout, and increasingly deft diplomacy, China has established productive and increasingly solid relationships throughout Asia and around the globe. Yet U.S. policymakers have only just begun to comprehend these critical changes. In his new book, Dr. Gill offers a comprehensive and far-reaching analysis of the transformation in China's security diplomacy, persuasively making the case for a more nuanced and focused policy toward Beijing.

[Click here for more information about the book.]

CONFERENCE AND EVENT

April 12 China Export-Import Bank's Lending Practices in Africa

China Export-Import Bank is the world's third-largest export credit agency and a major source of funding for infrastructure development projects in Africa. **Mr. Li Ruogu**, Chairman and President of the China Export-Import Bank, delivered a keynote speech addressing China Export-Import Bank's lending practices in Africa. He discussed prospects for Chinese collaboration with the U.S. and multilateral development assistance programs in Africa. **Dr. J. Stephen Morrison**, Director of CSIS Africa Program, provided opening remarks.

[Click here for conference summary.]

TRIVIA ANSWER

According official figures for 2005, the illiteracy rate among young and middle-aged people (ages 15-50) is 4 percent. In recent years, the central government has taken new initiatives to eradicate illiteracy and promote education, including exempting rural students from tuition and other fees. In 2006 alone, 1.7 million young and middle-aged Chinese learned to read and write.

Source: "Nation committed to fighting illiteracy," *China Daily*, April 5, 2007

PUBLICATIONS FROM THE FREEMAN CHAIR 2006/2007*

* Please visit our website to access archived publications dating back to 2002.

2007

April

"*Cebu Meetings, U.N. Veto on Myanmar*," Comparative Connections, CSIS Pacific Forum, vol. 9, no.1, April 2007

By **Robert Sutter**, Visiting Professor of the School of Foreign Service at Georgetown University, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

March

Rising Star: China's New Security Diplomacy. Washington, D.C.: Brookings Institution Press, 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS

"*The Long March against TB in China*," South China Morning Post, March 24, 2007

By **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS, and **Elizabeth Van Heuvelen**, Research Intern, Freeman Chair in China Studies, CSIS

February

"*China's Expanding Role in Africa: Implications for the United States*," CSIS, January 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS, and **J. Stephen Morrison**, Director, Africa Program, CSIS

Foresight: 2007. Exclusive Analysis Limited, London: 2007

Contributing Author: **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS

January

"*China's Evolving Civil Society: From Environment to Health*", China Environment Series, Issue 8, 2006, Woodrow Wilson International Center for Scholars

By **Drew Thompson**, national director of China-Merck Sharp & Dohme HIV/AIDS Partnership, and **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS

"*China-Southeast Asia Relations: Summitry at Home and Abroad*", Comparative Connections, vol. 8, no. 4, CSIS Pacific Forum, January 2007

By **Robert Sutter**, Visiting Professor of Georgetown School of Foreign Service, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

"*Young Girls in China: A New and Hidden AIDS Generation*", Global AIDSLink, Issue #101, January/February 2007, Global Health Council

By **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS

2006

December

"*Changing Health Paradigms, Globalization, and Global Security*", Geneva Centre for Security Policy, GCSP Policy Brief Series, December 6, 2006

By **Bates Gill**, Freeman Chair in China Studies, CSIS and **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS

October

"*Meeting the Challenges and Opportunities of China's Rise: Expanding and Improving Interaction between the American and Chinese Policy Communities*", CSIS, October 2006

By **Bates Gill**, Freeman Chair in China Studies, CSIS and **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS

"*Xinjiang: An Alternative to Formal Chinese Legal Institutions*", Stanford Journal of International Law, vol. 42, 2006

By **Carl Minzner**, Council on Foreign Relations Visiting International Affairs Fellow, Freeman Chair in China Studies, CSIS

"*Chinese Diplomacy and Optimism about ASEAN*", Comparative Connections, CSIS Pacific Forum, vol. 8, no. 3, October 2006

By **Robert Sutter**, Visiting Professor at the School of Foreign Service of Georgetown University, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

FREEMAN FACTS:

Environmental Health in China

1. It is estimated that 200 Chinese cities fall short of WHO standards for airborne particulates that are responsible for respiratory diseases.
2. Half of China's over 21,000 chemical plants are located along the Yangtze and Yellow Rivers, posing a significant threat to public health.
3. 323 million rural Chinese, or 34% of the total rural population in China, do not have access to clean drinking water.
4. Diseases linked to air pollution cause approximately 400,000 premature deaths in China every year.
5. About 12.3 million hectares, or more than 10% of China's arable land, is contaminated by pollution and the situation is getting worse.

Sources: BBC, China Daily, Worldwatch Institute, Xinhua

The *Freeman Report* is an electronic newsletter produced monthly by the Freeman Chair in China Studies at the Center for Strategic and International Studies (CSIS), a private, tax exempt institution focusing on international public policy issues. Its research is non-partisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be those of the author(s).

Center for Strategic and International Studies 2007

THE FREEMAN CHAIR IN CHINA STUDIES

Bates Gill, Freeman Chair in China Studies

Savina Rupani, Program Coordinator and Special Assistant to the Freeman Chair

Xiaoqing Lu, Research Associate

Melissa Murphy, Research Associate

Chin-Hao Huang, Research Assistant

Eve Cary, Project Coordinator

Elizabeth Van Heuvelen & Chen Huang, Research Interns

If you would like to be added to the Freeman Report listserv, please e-mail FreemanChair@csis.org. Or visit <http://www.csis.org/china/>

About the FREEMAN CHAIR IN CHINA STUDIES

The *Freeman Chair in China Studies* was established at the Center for Strategic and International Studies in 1994 to advance the study of China and to promote understanding between the United States and the countries of the Asia Pacific region. The Freeman Family—Luther Freeman as a clergyman, Mansfield Freeman as a scholar-business leader, and Houghton Freeman as a corporate executive in a global enterprise—have established a tradition of contributing to international understanding through practical experience in East Asia and China.

The United States has a long-standing relationship with China and the countries of East Asia, which play increasingly important roles in future international economics, politics, culture, and security. In the diplomatic, public policy, business, and government fields, the peoples of both China and the United States will benefit from greater mutual appreciation and understanding through broadly based international exchange.

The Freeman Chair's active policy-oriented agenda is dedicated to delivering informed public policy debates, expert briefings, and strategic policy recommendations on Greater China and East Asia to the diplomatic, policymaking, business, and government arenas.

Current Research Projects

- China's domestic challenges and their consequences for U.S.-China relations and U.S. strategic interests
- The emergence of Chinese civil society and nongovernmental organizations
- China's HIV/AIDS crisis and its implications for U.S.-China relations
- Examining the economic, trade, and financial tensions in U.S.-China relations
- China's relations with key regions—including Central Asia, Europe, and Africa—and their implications for the United States
- China's military modernization and its impact on regional security
- U.S.-China-Taiwan relations

To learn more about our program and ongoing research projects, please visit our website at <http://www.csis.org/china/>