

US-China trade disputes likely to rage on

By Andrew Beatty
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The recent bumper consignment of US-China trade disputes will be followed by boatload after boatload of new problems in coming years, experts predict, but that may be little cause for concern.

The sheer range of products fought over by the world's two largest economies is imposing, and becoming more so as November's US presidential elections near.

Reading down the list -- rare earth minerals, chickens, kitchen sinks -- anyone would think trans-Pacific trade risks being reduced to a few shipments of iPads transported from Shenzhen to San Francisco in a dinghy.

Breathless rhetoric from politicians and the media has added to the sense that an all-out trade war is at hand, or at best a 20-foot shipping container away.

Tariffs are being imposed and decisions probed. It seems there is countervailing duty bedlam.

But the truth is a little less dramatic, and a lot less likely to make US and Chinese consumers or business owners reach for the Prozac.

Since the two countries established full diplomatic relations in 1979, trade has increased more than 22,750 percent and is now worth about half a trillion dollars a year.

But the balance of trade, by a wide margin in China's favor, has caused consternation, especially because the US economy remains weak.

"It is always a highly charged relationship," said Meredith Broadbent, a former assistant US trade representative who is now with the Center for Strategic and International Studies.

"Since the financial crisis there is probably more concern in the United States," said Broadbent, who was also a negotiator of the marathon Doha round of World Trade Organization talks.

But US anger at the flow of Chinese exports is myopic and self-defeating, according to Daniel Ikenson, a trade expert at the CATO Institute.

"We like to think in terms of sports metaphors: exports are our team's points, imports are the other team's points and trade account is the scoreboard. We have a big deficit so that means we are losing, and we are losing because the other team is cheating," Ikenson said.

"Lost in that oversimplification is the fact that it is not 'us versus them' -- products that are consumed in the United States are often snapped together in China but they have been conceived here and the high-end components are made here and in Japan and Taiwan."

Despite very real fears about jobs lost, Chinese respect for intellectual property rights, unfair support for state-backed firms and the value of the yuan, the list of WTO disputes between China and the United States actually pales in comparison to other major trading relationships.

There have been 19 disputes between the United States and China lodged with the WTO, compared to the 20 disputes between the United States and Canada.

US-EU disputes, not including individual European Union member states, total 51.

The number of disputes between the United States and China may eventually match that number as trade increases, with a devastating impact on individuals, businesses and sectors.

But the broader economic impact is likely to be limited.

"The disputes are not unimportant," said Broadbent. "But I think it speaks for itself. It is a very complex commercial relationship, we trade a lot. It is natural we are going to have disputes."

More important than the number of disputes may be the fact that they are being brought to the WTO, with both sides shying away from unilateral sanctions.

"Settling disputes through the World Trade Organization, particularly using the dispute mechanism there, is a healthy sign of the state of the relationship," said Joshua Meltzer, an Australian former trade diplomat now with the Brookings Institution.

"That is really what the system is there for, to take the political heat out of disputes."

But the rhetoric could still poison US-China relations.

In the United States, trade with China risks being permanently added to the list of issues that politicians cannot seem to talk about sensibly when an election is on the horizon -- which is always.

Meanwhile, the communist rulers in Beijing know slow economic growth at home could quickly stoke the wrath of China's poor.

The temptation to reach for beggar-thy-neighbor trade policies could be difficult to ignore.

Yukon Huang, a former World Bank country director for China who is now with the Carnegie Endowment, believes the rhetoric should be toned down, even if a trade apocalypse is unlikely.

"By politicizing it, you actually make it hard for people to deal with problems in a market friendly manner," he said.