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Let's be realistic

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No sooner had the United States and China announced the successful conclusion of their strategic economic dialogue, last week, than the China Currency Coalition pronounced the talks a failure and called on the US Congress to "take much-needed action". The coalition is an alliance of American industry, agriculture and labour groups whose mission, it says, is "seeking an end to Chinese currency manipulation".

These Sino-US talks began last year to examine long-term strategic issues. Now some in the US, like the coalition, expect them to provide short-term solutions to immediate problems. At the same time, the US-China Business Council - a private, non-profit-making organisation of US firms that do business with China - hailed the talks and said they showed "the importance of engagement in forging progress on key US concerns".

American society is clearly divided on China. There are differences between the Bush administration and Congress. And between those who benefit from China - such as US firms that do business with, and consumers who enjoy low-cost imports from, that nation - and those who blame it for their lost jobs.

How American society views US relations with China was highlighted by a recent Zogby International poll commissioned by the Committee of 100, a non-profit, non-partisan group of Chinese-American leaders and professionals.

The survey showed that trade is regarded as the most likely area of shared interests - but also as the most likely source of conflict between the two countries. That view was held by virtually all segments of American society - the general public, opinion leaders, business leaders and congressional staffers. This underlines the need for Washington and Beijing to handle trade issues with special care. The survey also showed that Americans hold a less favourable view of China than they did two years ago - possibly because of the widespread reports of tainted food and drug exports from mainland China. Beijing last week agreed to allow US health inspectors to monitor food and drug exports, which should ease concerns about contaminated Chinese products.

But trade issues remain intractable. American attention is focused on the value of the yuan, and Washington is pressuring Beijing for a rapid appreciation to make exports more costly. China has allowed its currency to rise by over 12 per cent since July 2005, but Washington wants a much more dramatic increase. More than 50 China-related bills have been proposed by US legislators in recent years. The best-known was put forward by Senators Charles Schumer and Lindsey Graham, to impose a 27.5 per cent surcharge on all imports from China to compensate for what they call the deliberate undervaluation of the yuan. If any of these bills become law, they will trigger a trade war.

But Congress is focusing on a nonstarter. Beijing is not about to dramatically revalue its currency, especially when it saw what happened to Japan after it agreed, in 1985, to such a revaluation of the yen. The dramatic increase in the yen's value was followed by a prolonged economic slump in that country.

Instead of focusing on the yuan, it may be better for American legislators to look at another area - Beijing's failure to protect American intellectual property rights. Many Chinese officials openly acknowledge the widespread tendency to violate intellectual property rights in their country.

An American argument that China should pay in some form for stolen American technology may find less implacable opposition than a demand to revalue the currency. In fact, Ted Fishman, the author of *China Inc.*, has proposed a "technology tax" on a variety of Chinese goods based on the assumption that their low cost "derives in some way from stolen technology".

Such an approach would certainly not be welcomed by Beijing. But it may be worth exploring as an alternative to legislation to punish China for the way it is handling its currency.

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