



Washington REPORT

News and analysis from Washington, D.C. about key issues in U.S.-Asia Pacific Relations

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Top-Level Communications Are Key To Managing Challenges In U.S-Asia Pacific Ties

USAPC Interview with Ambassador J. Stapleton Roy

The United States faces a number of challenges in its relations with the nations of the Asia Pacific owing to important changes in the nations themselves as well as in the dynamics between them. China's rise economically, diplomatically, and militarily will continue to cause tensions and misunderstandings between Washington and Beijing. India's emergence as an important player in East Asia likely will fuel competition with China, which, in turn, may pose new problems for the U.S. diplomacy. And Washington's erstwhile Asian ally, Japan, is striving to grow beyond its "junior partner" status, which creates "enormous conceptual problems" for the United States, according to Ambassador J. Stapleton Roy.

The key to managing these fluid developments, according to Roy, is to maintain open channels of communication and establish regular contacts at the highest levels of government.

USAPC: In late November 2007, the Chinese Navy refused to allow U.S. naval vessels to enter the port of Hong Kong on two occasions.¹ The U.S. Navy responded in a manner that the Chinese government viewed as provocative.

What are the implications of these episodes on U.S.-China military exchanges and U.S. perceptions of China's military strategy?

Roy: These types of incidents really illustrate what can happen to U.S.-China relations and U.S. relations with East Asia if the relationship between the United States and China is not handled properly. With good management, even sharp, substantive disagreements between the two sides can be handled without causing

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U.S.-China Talks Continue To Disappoint Congress

The United States and China held two high-level economic dialogues in Beijing on December 11–13, the Joint Commission on Commerce and Trade (JCCT) followed by and the U.S.-China Strategic Economic Dialogue (SED). The former focuses on resolving specific, pressing trade issues, while the latter serves as an overarching framework to consider longer term issues in U.S.-China economic relations.

Judging by the statements and fact sheets issued by the Bush Administration, the dialogues were

successful. They produced agreements on issues as wide-ranging as the safety of food, consumer products, drugs and medical devices, tourism promotion, environmental management, and energy efficiency. "The SED has proven to be an effective forum for progress, and I look forward to continuing progress in managing our economic relationship," Treasury Secretary Henry Paulson said following the SED.

No Currency Agreement—Key Members of Congress appeared unimpressed by these results. They

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Official Washington

In each issue, Washington Report will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to U.S.-Asia Pacific relations. This issue will focus on pertinent personnel from the State Department.

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friction. But if relations are not managed well, incidents such as the ones involving the U.S. naval vessels tend to enflame a difficult situation even further. They create tensions and potential dangers that may reverberate throughout the region and even globally.

These incidents, in and of themselves, are trivial. In their symbolic importance, however, they are not the slightest bit trivial. If the U.S. and Chinese militaries cannot resolve matters such as a Hong Kong port call, how can they handle larger, more complex issues that will be generated as China continues to rise economically and militarily?

China's rise will pose challenges not just for the United States, but also for China's neighbors. And China lives in a neighborhood where its neighbors include not only small and middle-sized countries, but also global powers.

Japan certainly is a global economic power. And in conventional military terms, Japan also is a very powerful country. India, of course, is a nuclear power. And Russia still maintains a significant military capability. So China has neighbors that are important countries in their own rights.

USAPC: How do we improve the management of U.S.-China relations so these sorts of incidents do not recur?

Roy: The irony is that these incidents occurred shortly after the United States resumed military exchanges with the Chinese military. After the EP-3 incident in April 2001,² the U.S. Defense Department essentially froze military exchanges with China. In my judgment, that was extremely unwise.

The more problems we have with China, the more exchanges we should have because we need to know the other side and the other side needs to know us. That is the best way to resolve disagreements. I have yet to read a marriage manual that says you should freeze all communications if you are having problems with your partner. This applies in the international sphere as much as it does to personal relationships.

We need open channels of communication. The more serious the problems are, the more important it is to maintain open channels of communication.

USAPC: What about the role of Russia in the Asia Pacific? The Russians have not really distinguished themselves in the Six-Party Talks aimed at ending North Korea's nuclear program.

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Congressional Watch

Legislative Activity:

In the closing days of the first session of the 110th Congress, lawmakers acted on several bills relevant to U.S.-Asia relations.

- **Burma Human Rights**— On December 10, 2007, the House unanimously passed the “Block Burmese Junta’s Anti-Democratic Efforts (JADE) Act,” sponsored by Representative Tom Lantos (D., California), chairman of the House Foreign Affairs Committee. The bill would freeze the assets of the Burmese military elite, but also prohibit U.S. banks from maintaining accounts used by a foreign banking entity on behalf of these officials. In addition, the bills clarify that the prohibition on Burmese imports encompasses gemstones and hardwoods. Nine days later, the Senate passed an amended version of the Lantos bill, sponsored by Senator Joe Biden (R., Delaware), chairman of the Senate Foreign Relations Committee. The House adjourned shortly thereafter, however, without voting on the amended version.

On December 17, the House also passed legislation that would award the Congressional Gold Medal to Aung San Suu Kyi, leader of Burma’s National League for Democracy. Time ran out for Senate action on this bill. The outlook for such legislation in 2008 will be influenced by developments in Burma.

- **Product Safety**—On December 20, the House passed legislation aimed at overhauling the operations of the Consumer Product and Safety Commission to improve the inspection of food and consumer product imports, among other purposes. The Senate adjourned without acting on the bill.

Although focused on a domestic agency, the legislation is significant for U.S.-Asia relations because it was crafted in the wake of a spate of recalls of tainted food and consumer product imports from China.

Potential China-targeted elements of the bills were a provision that would place U.S. inspectors at foreign ports and a provision that would impose tougher penalties on foreign and domestic entities that sell unsafe products.

Special Reports:

- **U.S.-China Economic and Security Review Commission Annual Report to Congress**—On November 15, 2007, the U.S.-China Economic and Security Review Commission presented its 2007 annual report to Congress. The 12-member, bipartisan body made 42 recommendations to Congress for further action.

In the economic area, the Commission recommended that Congress urge the administration to bring a World Trade Organization case against China for manipulating its currency to gain unfair trade advantage. The panel also expressed support for legislation to define currency manipulation as an illegal export subsidy and allow the subsidy to be taken into account when determining punitive tariffs.

Commission members acknowledged that China’s adherence to non-proliferation agreements has improved in recent years, but they remained wary of its military modernization efforts. In particular, the report urged Congress to ensure that U.S. space-based assets are properly protected and to undertake an alliance-based approach to potential Chinese cyber attacks.

The Commission was created in October 2000 to monitor, investigate, and submit to Congress an annual report on the national security implications of the bilateral trade and economic relationship between the United States and China. The 2007 annual report may be accessed at www.uscc.gov/.

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argued that the dialogues failed to produce an agreement on China’s currency policy—the one issue that, in their view, continues to harm American business, fuel the massive bilateral trade deficit, and generally threaten the U.S. economy. House Ways and Means Trade Subcommittee Chairman Sander Levin (D., Michigan) suggested following the SED that his panel would move quickly in 2008 to consider a bill aimed at forcing China to allow its currency to appreciate more rapidly, possibly reporting a measure as early as February.

Senate Finance Committee Chairman Max Baucus (D., Montana) offered a more balanced assessment of the JCCT/SED meetings. He noted “some obvious shortcomings, some visible progress, and a great deal of potential if we work hard and follow through.” Baucus applauded the conclusion of a Memorandum of Understanding (MOU) on food, feed, and medical device safety, China’s commitment to improve intellectual property rights protections, and Beijing’s initial offer to join the World Trade Organization (WTO) Government Procurement code.

Boosting Public Confidence—But like Levin, the Senate Finance Committee Chairman expressed disappointment with what he regarded as the lack of progress

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Roy: Russia is a difficult country to evaluate in the East Asian context because of changes in Russia itself. For one, it is no longer an ideological power that is pushing communism as a model for other countries.

In addition, the former Soviet Union has dissolved. The Russian Federation still is an enormous country with a significant population, nuclear weapons, and intercontinental ballistic missiles. It remains a very important player in the region and the world. But the Russian Federation undeniably is smaller and less of a global power than the former Soviet Union.

Moreover, during much of the 1990s Russia was struggling domestically. It only has been in the past 10 years that Russia has recaptured its economic vitality, and that is largely due to the rise in oil prices. But in East Asia, the Russian Federation still does not wield the economic or military heft that the former Soviet Union previously did.

The problem from Russia's standpoint is that the mass of its population is in the European part of the Federation. Its vast eastern territories are under-populated owing in part to the extreme northern expanse of these territories. It therefore is difficult for Russia to maintain security in the eastern territories given the sparse population. At the same time, though, they have important eastern cities such as Vladivostok, Khabarovsk, and other historic settlements there.

It would be a disastrous mistake to forget about Russia or to try to exclude Russia from discussions about East Asian issues that are important to its interests. Any development in Northeast Asia naturally is of very great importance to Russia. For this reason, it certainly is appropriate to include Russia in the Six-Party Talks. But we should not expect Moscow to drive the process.

Russia needs to have a sense of participation. That is the secret to managing Russia as an Asian power, albeit a somewhat diminished power. The United States and other Asian nations should not try to exclude Russia from discussions and forums relevant to its interests. At the same time, though, we should not expect it to play the role that it tried to play earlier when it had a larger empire to back it up.

USAPC: One hears a lot about how India is becoming an important player in East Asia. Do you think this description of India's rising influence in the region is exaggerated?

Roy: No, I do not think that description is exaggerated at all. If anything, India's significance was exaggerated in earlier years when it was not growing so rapidly.

India played a significant role in the non-aligned

movement, through its relationships with key power centers around the world, and through its refusal to take sides in the Cold War struggle. But in terms of its economic strength, India previously was a weak player.

Now India's economy is growing rapidly and its population is expanding. The latter, in particular, will pose enormous problems for India down the road. According to some projections, within 30 years India's population will be larger than that of China.

So India clearly is a country of great importance and growing significance. But it is a country that lacks a history in the modern world of acting as a nation-state.

India was a British colony, of course, until the late 1940s. After it gained independence, India was driven heavily by what some might call post-colonial impulses and its continuing confrontation with Pakistan. It did not project a foreign policy interest in East Asia or Southeast Asia of the sort that you would normally expect from a country of its size and potential importance.

Also important is the fact that historically India never has been a geopolitical player in East Asia. It has had a major cultural, philosophical, and religious impact on the East Asian cultures going back centuries, even millennia. But owing to geographic factors, India has not been involved in East Asia as a military power.

As India gains economic and military power in the next 50 years, will this pattern of behavior in East Asia change? Perhaps, but that is difficult to predict. India's relationship with China likely will be a determining factor. There is a rivalry between the two countries, but also a desire to cooperate because in many ways they are complementary. India and China both are going through a rapid development process.

I think it would be a major mistake for the United States to try and play off one country against the other. That strategy not only would be contrary to the interests both of India and China, but it also would end up weakening our relationships with these countries rather than strengthening our own position. That is a danger we must avoid.

India will want to pursue closer relations with *both* the United States and China. And as in our own relations with China, there will be elements of competition and elements of cooperation in the Sino-Indian relationship.

USAPC: As U.S. relations with Asian nations continue to evolve, both bilaterally and multilaterally, how do you see this affecting our long-time alliance with Japan?

Roy: East Asia offers enormous opportunities for the United States, but it also offers some of the biggest challenges. One of these challenges is rising China, which gets a lot of attention in Washington. Our relationship with Japan gets less attention than it should.

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Roy Interview

Japan is going through a vitally important transition. The new leaders that are emerging no longer accept the restraints placed on Japan by its defeat in World War II. They want Japan to be a “normal country.” With the second-largest economy in the world and its impressive military capabilities, by rights, Japan should have a permanent seat on the U.N. Security Council and a higher stature in other global councils.

To achieve those goals, however, Japan must deal with the legacy of its earlier history of Asian conquest. That poses a real problem for Japan because its harsh

The rise of China poses an even greater challenge for Tokyo than it does for Washington

behavior toward its neighbors during the 1930s and 1940s continues to influence present-day attitudes of countries such as China, South Korea and North Korea and China. There are echoes of these anti-Japanese attitudes in Southeast Asia as well. So Japan is looking for its proper role in an Asia where the rise of China poses an even greater challenge for Tokyo than it does for Washington.

For the United States, this creates enormous conceptual problems. We must understand and appreciate that the habits of the past 50 years, when Japan played the role of faithful ally of the United States, are changing. Japan now wants to be itself. It wants to be recognized in the region and globally as an independent nation that is a friend of and cooperates with the United States—but is not a junior partner with the United States.

Japan has the same cooperative and competitive relationship with China that India and the United States have. But Japan’s situation is different because it is in closer proximity to China and the territorial disparities between the two countries are enormous.

For the United States to manage effectively the important transitions in Japan’s regional role as well as related changes to U.S.-Japan relations, we must have much better coordination than we have had in recent years between the military and non-military aspects of bilateral relations.

Whether we are dealing with economic problems or tensions arising from issues in Sino-Japanese relations or matters about which China, Japan, and the United States do not fully agree, it is critical that the U.S. Departments of State and Defense work more closely with each other. This interdepartmental coordination has not been nearly as good as it must be.

It is important for the United States to re-think its

approach to challenges created by the rise of China and changes in U.S.-Japan relations or we will be dealing with new issues using old concepts, and that will not produce the best policy approach.

USAPC: With respect to evolving regional architectures, such as the ASEAN+3 construct or the East Asian Summit (EAS),³ do you think these institutions could serve as forums for resolving regional issues, be they economic, political, or security-related?

Roy: Yes, they could. But the United States needs to be agile in its thinking about what the U.S. relationship should be with these emerging institutions. At the moment, East Asia still is searching for the organizational frameworks that will best suit the interests of the area.

The Asia Pacific Economic Cooperation (APEC) forum played a critically important role in bringing regional leaders together on a regular basis for the first time. But in a way, APEC is too large; there are 21 member economies. In addition, it focuses primarily on economic cooperation issues and includes transpacific players whose attention is not as focused on the Asian Pacific area as some other countries.

So it is not surprising that in the eyes of many Asians, APEC simply has not been as well suited to dealing with their problems as smaller, more Asia-centered groups. But this raises the age-old question of whether or not Australia and New Zealand should be included in a new regional architecture. Geographically, Australia and New Zealand are East Asian countries, but culturally and historically they have not been seen either by themselves or by their East Asian neighbors as “Asian” countries. Most

The United States has not devoted enough intellectual attention to examining whether it should participate in Asian organizations

Asians no longer have that attitude, although one sees a lingering legacy of that view in Malaysia.

Over the years, the United States also has been a very important regional player. But in the last decade East Asian coordination mechanisms have emerged that do not involve the United States. The ASEAN + 3 framework is the most notable example of this. The United States also is not a participant or even an observer in the East Asian Summit (EAS).

This is not necessarily an adverse trend. But the United States has not devoted nearly enough intellectual attention to examining whether it should participate in these regional organizations or could play a more constructive role as an outside player.

The failure by the United States to define a position

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on whether it should become a signatory to the ASEAN Treaty of Amity and Cooperation is an egregious oversight. The Southeast Asian nations regard the TAC as the defining indicator of whether a nation supports ASEAN's efforts to ensure that the region remains a zone of tranquility. This oversight has fed the belief in Asia, which I think is mistaken, that the United States does not care about East Asia as much as it did in the past.

The United States also must remain open to the idea that it may be necessary to have sub-regional organizational structures in East Asia, which would address the different security challenges created by the geography of the region. We already can see the kernel of this notion in the proposal that the Six-Party Talks, if successful, potentially could evolve into some sort of a stabilization mechanism for Northeast Asia.

USAPC: Do you think the United States is overly reluctant to consider alternatives to its "hub-and-spokes" network of alliances in East Asia?

Roy: It is not wise to throw out what you have until you have a sense for where you want to go. But in some ways the historic American treaty relationships in East Asia, which were formed during the Cold War for a particular purpose, have become a straitjacket for U.S. thinking. So, yes, Washington has been reluctant to think outside of that box because doing so might seem to be lessening the U.S. commitment to existing arrangements.

In reality, however, those existing arrangements have changed substantially. We see this particularly with respect to the U.S.-South Korea security alliance. Attitudes in South Korea have undermined the significance of that relationship, although they have not destroyed it. Washington and Seoul still regard the alliance as very important.

Nevertheless, the underpinnings of the U.S.-South Korea security alliance are significantly different from when it originally was concluded. This is because South Korea now is interested in improving relations with North Korea. It also has improved significantly its relations with China.

Thus, the security treaty, which was aimed at protecting South Korea from a mutually perceived threat, is no longer as relevant in the minds of many South Koreans as the perception of the threat has diminished. The question now is whether collective security arrangements that are aimed at preventing the emergence of threats should begin to play a greater role.

USAPC: You mentioned earlier the importance of communication in managing challenging relationships, particularly communication at the upper reaches of gov-

ernment. Are we on the right track with the U.S.-China Strategic Economic Dialogue (SED)?

Roy: The biannual meetings of the SED do not produce dramatic progress in dealing with important economic issues between the United States and China. But the SED plays the critically important role of bringing senior leaders of the United States and China together every six months to review a whole host of economic and financial issues.

Do we have an equivalent political dialogue? No. We do have what the U.S. side calls a "senior dialogue" with Chinese officials, but it is conducted at the Deputy Secretary level in the State Department and Chinese Foreign Ministry.

Given the cabinet-level status of the SED participants, one might ask why they must meet so frequently. As I suggested earlier, the answer is that both sides must meet frequently. How can one possibly believe that it is not a good investment of time for senior officials of a country such as the United States to meet with their counterparts from the most rapidly rising power in the world to discuss current issues?

It is through regular meetings like the SED that officials get to know each other. That is how they acquire a grasp of the issues and establish continuity. If a leader only deals with an issue every year or two at a summit meeting, he or she will not be as conversant with the details. By meeting every six months, however, they are better able to stay on top of things.

I hope that Washington ultimately recognizes that in order to effectively manage important relationships in Asia or anywhere else in the world, the leaders themselves must meet with some frequency. If they do not get to know each other through that process, they will feel like they are dealing with strangers. That is not a good basis for sound policy. ♦

Ambassador J. Stapleton Roy is Managing Director of Kissinger Associates, Inc. He also is Chairman of the United States Asia Pacific Council (USAPC).

Endnotes

1. On November 21, the aircraft carrier USS Kitty Hawk and its escort ships requested permission to dock at the port of Hong Kong for a four-day visit, but the Chinese navy refused them entry. Three or four days before, two U.S. minesweepers seeking to refuel in preparation for the stormy conditions in the South China Sea also had asked to enter Hong Kong and were denied permission. Although the Chinese navy subsequently reversed its decision and said the Kitty Hawk and its escorts could enter the Hong Kong port on "humanitarian grounds," by then the U.S.

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in accelerating the reform of China's currency policy, opening China's market to U.S. beef, and liberalizing China's financial services sector. Baucus and Ranking Republican Member Charles Grassley (R., Iowa) sent a letter to Paulson in early December 2007, which underscored the importance of boosting public confidence in U.S.-China economic relations. The only way to do this, they said, is by ensuring that "no economy gains unfair advantage in trade through unacceptable policies and practices, including unfair exchange rate regimes or discriminatory domestic regulations." Baucus and Grassley made clear that they wanted the JCCT and SED to realize "measurable progress" on these issues.

Treasury Currency Report—At press time, Baucus had not indicated publicly whether his committee would consider China legislation in early 2008 or in what form. But congressional insiders felt quite certain that he and other Members of the Senate would hit the ground running in the second session with China-targeted bills.

They suggested that the Treasury Department's "Semiannual Report on International Economic and Exchange Rate Policies," issued on December 19, 2007, likely was the last straw for many lawmakers who want to respond to constituent fears about the potential job-related impact of competition from China, particularly during an election year.

Treasury argued, as it did in the May 2007 congressionally mandated report, that China still did not meet the requirements for designation as a currency manipulator. That designation, in turn, would set the stage for expedited negotiations, either bilaterally or through the International Monetary Fund (IMF), aimed at adjusting the exchange rate to end the unfair advantage.

Senator Charles Schumer (D., New York), who two years ago championed a bill that would have imposed prohibitively high tariffs on all Chinese imports if Beijing did not reform its currency policy, blasted the Treasury Report and warned the Bush Administration to expect legislative action: "In refusing to brand China as a currency manipulator, which is so obvious, the administration gives Congress no choice but to act on its own," Schumer charged.

Possible Senate Legislation—It is very unlikely that Schumer will re-introduce his punitive proposal. He subsequently acknowledged that it not only would violate WTO rules, but also invite sharp retaliation from Beijing. Instead, Schumer likely once again will lend his support to efforts by Baucus and Grassley to craft a China currency bill that would impose remedies on Beijing for inaction, but do so in a manner they maintain is consistent with international trade law.

The proposal Baucus and Grassley introduced in 2007

USAPC/EWC On The Hill

Congressional Study Group on the Asian Security:

"Prospects for Taiwan-PRC Peace Under New Leaders"—On November 15, 2007, the East-West Center invited Ambassador Raymond Burghardt, Director of East-West Seminars at the East-West Center and current Chairman of the American Institute in Taiwan (AIT) and Dr. Richard C. Bush, Senior Fellow and Director of the Center for Northeast Asian Policy Studies at the Brookings Institution, to discuss their expectations for cross-strait and U.S.-Taiwan relations in the six months before a new Taiwan President is inaugurated.

The speakers agreed that Taiwan has become weaker diplomatically, militarily, and economically during the past seven to eight years. In that regard, the January 12 parliamentary elections and the March 22 presidential election present valuable opportunities for renewed political coherence and national strengthening, they said.

Congressional Study Group on the Asia Pacific Economy:

"Doing Without Doha: New U.S. Trade Strategies in Southeast Asia"—On February 4, Barbara Weisel, Assistant U.S. Trade Representative for Southeast Asia and the Pacific, will discuss Washington's strategy to foster more liberal trading arrangements with the nations of Southeast Asia. Murray Hiebert, Senior Director, Southeast Asia, U.S. Chamber of Commerce, will be the discussant, providing the business community's perspective on these initiatives.

The East-West Center's Congressional Study Groups (CSG) provide fora for the dissemination of research and discussions of key issues in U.S.-Asia relations of potential interest to U.S. lawmakers. The program is chiefly for congressional staff.

would (1) strengthen the ability of Treasury to determine if a nation's currency is not properly aligned and (2) impose remedies for inaction, which would include making currency undervaluation a factor in antidumping cases. The sponsors have yet to indicate how, if at all, they will alter the anticipated 2008 version.

Senate Banking Committee Chairman Christopher Dodd (D., Connecticut) and Ranking Republican Member Richard Shelby (R., Alabama) introduced another currency bill last year. Like the Baucus/Grassley proposal, theirs would make it easier for Treasury to determine that China's currency is misaligned. However, the Dodd-Shelby proposal would require Treasury to seek remedy for currency manipulation through the IMF.

Asia Pacific Dialogue

Asia Pacific Economic Cooperation (APEC) forum:

- **Informal Senior Officials Meeting (SOM)**—Senior officials from the 21 member economies of APEC met informally on November 27–29, 2007 in Lima, Peru to discuss key aspects of the 2008 APEC agenda. Ambassador Gonzalo Gutierrez, who will chair the 2008 APEC SOMs, said the theme for APEC Peru 2008—“A new commitment to the development of the Asia Pacific”—is intended to elevate attention to the social dimension of free trade and economic growth.

“We hope to facilitate broader access to the wealth that is being generated in our region,” Gutierrez said. Specifically, APEC Peru 2008 will seek to expand educational opportunities to those who lack access, support technical cooperation to close the digital divide, and eradicate corruption that undermines job growth and business opportunities.

- **Senior Finance Officials Meeting**—Senior finance officials, also meeting in Lima, Peru, agreed on December 7, 2007 that their work in 2008 would follow the discussion themes of “result-based budgeting” and “capital market reforms.” Under the first theme, officials will consider how to improve management of public funds through more responsible budgeting. They also will try to build on previous efforts to create more transparent and stable regional and domestic capital markets so that business can invest and create jobs in the Asia Pacific. In addition, Chairman Javaier Kapsoli said the APEC Finance Ministers certainly will consider salient global and regional economic issues as they develop through the year.

Important ‘Track-Two’ Meetings:

- **Council for Security Cooperation in the Asia Pacific (CSCAP)**—On December 2, 2007, the CSCAP Steering Committee met in Jakarta, Indonesia. This was followed by the CSCAP General Conference and a special meeting of the Weapons of Mass Destruction (WMD) Study Group, which was co-chaired by the U.S. Member Committee.

CSCAP, launched in June 1993, is a non-governmental (“track-two”) process that enables regional confidence-building and security cooperation among countries and territories in the Asia Pacific region.

Key Official Meetings, January–February 2008:

- **Christopher Hill, Assistant Secretary of State for East Asian and Pacific Affairs** traveled to Asia to consult individually with China, Japan, Russia, and South Korea about the the Six-Party Talks aimed at ending North Korea’s nuclear program, January 4–12.

- **Secretary of State Condoleezza Rice** joined other senior government officials, global business leaders, and prominent scholars will convene for the World Economic Forum, January 23–27, Davos, Switzerland.

- **Treasury Secretary Henry Paulson** likely will meet other financial chiefs from Group of Seven industrial nations to discuss the U.S. subprime mortgage crisis, among other issues, February 9, Tokyo, Japan.

- **Patricia Haslach, U.S. Senior Official for APEC**, will meet her counterparts from the 21 member economies of APEC for the first formal Senior Officials Meeting (SOM), February 20–March 3, Lima, Peru.

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Possible House Legislation—The Senate bill that gains the inside track in 2008 may be determined by developments in the House. During the first session, a bill introduced by Representatives Duncan Hunter (R., California) and Tim Ryan (D., Ohio) attracted more than 100 co-sponsors and was viewed widely as the vehicle for this chamber’s action on China’s currency. It would make exchange rate misalignment by any foreign nation a countervailable export subsidy. Hunter, Ryan, and other supporters—most notably, the U.S.-China Economic and Security Review Commissions (see box on page three)—maintained that this approach also would be legal under WTO rules. Other experts in international trade law, including some senior Senate staff, have disagreed.

Other Trade Issues—House staff have suggested that the House Ways and Means Trade Subcommittee proba-

bly will use some variation of last year’s Hunter/Ryan bill as the vehicle for addressing China’s currency. It remains to be seen how House members will address concerns about the WTO legality of the countervailing duty remedy. This, in turn, may influence both substance and action in the Senate.

Given election-year pressures on lawmakers to come down hard on trading partners who do not play fair, it is possible a “currency bill” will balloon to include provisions that address other problems in U.S.-China economic relations. These might include China’s weak enforcement of intellectual property rights, local content requirements, and restrictions on beef and other agricultural imports.

Members of Congress might also use the bill to address lingering concerns about the safety of Chinese imports of food and consumer products—notwithstanding the MOU concluded in December. Depending on how the year unfolds, the currency bill could become a “Christmas tree” for anti-China complaints. ♦

Endnotes

- ships were already on their way back to their home port in Yokosuka, Japan. However, rather than returning via the Pacific Ocean, the Kitty Hawk and its escorts proceeded through the Taiwan Strait, a route that effectively showcased U.S. naval power much closer to Chinese shores. Chinese authorities criticized the U.S. Navy for responding in a provocative manner to what it termed a “misunderstanding” about the port calls.
2. On April 1, 2001, two Chinese fighter aircraft harassed a U.S. EP-3 reconnaissance aircraft operating in international airspace about 70 miles from the Chinese island of Hainan. According to the U.S. Navy, one of the Chinese fighters collided with the EP-3 after several harassment maneuvers. The collision destroyed the Chinese aircraft and apparently killed the Chinese pilot. The EP-3 was so damaged that it was forced to make an unauthorized emergency landing on Hainan Island. Washington and Beijing sharply disagreed about the cause of the collision and whether it occurred in Chinese or international airspace, which created a tense and wary atmosphere in U.S.-China relations.
 3. The ASEAN+3 framework involves the 10 members of the Association of Southeast Asian Nations (ASEAN)—Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam—plus China, Japan, and South Korea. The East Asia Summit (EAS) is a forum held annually by the leaders of 16 countries in East Asia and the region. The first summit was held in Kuala Lumpur, Malaysia on December 14, 2005. Subsequent EAS meetings were held in December 2006 and November 2007. Participants have included the ASEAN+3 nations, plus Australia, India, and New Zealand.

USAPC in the Region*

PECC State of the Region Report Issued—The Asia Pacific region will experience slower economic growth in 2008, but is likely to avoid a sharp downturn due to the sub-prime mortgage crisis in the United States. This is an important conclusion of the Pacific Economic Cooperation Council’s (PECC) annual *State of the Region Report*, which was unveiled on December 14, 2007 at PECC’s Executive Committee meeting in Singapore. PECC forecasters expect 4 percent real GDP growth for the region as a whole in 2008, rising to 5.2 percent in 2009. This forecast assumes that the United States will not enter into a recession and that a recovery in the housing sector will take place in the second half of 2008. See <http://www.pecc.org/sotr> for the full report.

PECC Examines the Asia Pacific Education Market—PECC’s Executive Committee meeting also gave further impetus to an important new project that will examine developments in the education sector and the opportunities and challenges they present for regional economic integration and community building in the Asia Pacific. Students are now exploring an ever-increasing range of options for university degrees—both in where and how they study—the project description notes. This means that traditional education hubs like the United States, the United Kingdom, and Australia are vying with emerging centers like China, Japan, Singapore, and Malaysia. The project team, which includes Prof. Christopher Findlay, University of Adelaide, Prof. William Tierney, University of Southern

California, and Prof. Lloyd Armstrong, University of Southern California, will examine trends in the various modes of supply of education services across borders and identify impediments to international cooperation.

PECC, ABAC Collaborate on Project About Demographic Change and Labor Mobility in the Asia Pacific Region—Another 2008 PECC priority will be to examine the national experiences of the Asia Pacific economies in managing labor movement, both inward and outward, and consider problems and policy responses associated with temporary migrant workers. PECC will collaborate with the APEC Business Advisory Council (ABAC) on this project. Preliminary work will be presented at a conference in Seoul, South Korea on March 25-26. The final report will be presented to the ABAC at its May 12-14 meeting in Moscow, Russia. U.S. project participants include Prof. Susan Martin, Georgetown University and Dr. Sherry Stephenson, Organization of American States.

*USAPC is the U.S. Member Committee of the Pacific Economic Cooperation Council (PECC), an entity that aims to serve as a regional forum for cooperation and policy coordination to promote economic development in the Asia Pacific region. There are 27 other Member Committees of PECC, including two associate members and two institutional members, from all over Asia Pacific region. Member Committees are composed of senior individuals from business and industry, government, academic, and other intellectual circles, all of whom participate in their private capacity. PECC is the only non-governmental observer of the Asia Pacific Economic Cooperation (APEC) forum.



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