



Washington REPORT

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

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China Still Lags America In 'Soft Power' In Asia USAPC Interview with Dr. Marshall Bouton

With China's emergence as a global economic power, American lawmakers have become concerned about the extent to which it is expanding its influence in Asia and elsewhere through the use of "soft power." Senate Foreign Relations Committee Chairman Joseph Biden (D., Delaware) last year commissioned a special study from the Congressional Research Service (CRS) to examine how China's soft power may affect U.S. interests. Hearings also have been held on China's soft power initiatives in Africa and Latin America.

*As Dr. Marshall Bouton of the Chicago Council on Global Affairs discusses, public opinion surveys indicate that China's rise as a great power does not necessarily translate into soft power influence. The Council's groundbreaking report—*Soft Power in East Asia*—found that most Asians ranked China well below the United States in terms of its ability to wield influence by indirect, nonmilitary means.*

USAPC: How did The Chicago Council on Global Affairs define "soft power" for purposes of conducting the survey?"

Bouton: In defining "soft power" for this survey, we really drew on Harvard Prof. Joseph Nye's now famous book—*Soft Power: The Means to Success in World Politics*. Prof. Nye defined soft power generally as the ability of a nation through non-military means to exert its influence and to attract the attention and cooperation of other nations. In particular, Prof. Nye has proposed that soft power refers to the ability of a nation to define the agenda.

USAPC: How did the survey measure a nation's soft power?

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Congress Reacts Guardedly To North Korea's Nuclear Statement

Members of the House and Senate who are influential on foreign policy withheld praise of North Korea's declaration on June 26 of its nuclear programs pending verification of the accuracy of the statement. They expressed continued concern about the veracity of the details provided by Pyongyang concerning plutonium production. In addition, these lawmakers want and expect North Korea to account for its suspected proliferation of nuclear technology to Syria and its suspected past efforts to enrich uranium (HEU).

"Without clarity on these issues we cannot proceed with confidence to the next phase of the negotiations—the dismantlement of North Korea's nuclear facilities and the removal of any fissile material from the country," Senate Foreign Relations Committee Chairman Joseph Biden (D., Delaware) said.

House Foreign Affairs Chairman Howard Berman (D., California) reacted in a more upbeat manner, saying it was "encouraging that North Korea has submitted the declaration." Echoing Biden, though, he

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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 focuses on pertinent personnel from the **Treasury Department**.

Mailing Address:

(1) Main Treasury (MT)
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220
(2) 1440 New York Avenue, N.W. (NY)
Washington, D.C. 20220

Office of the Secretary of the Treasury:

Alan F. Holmer—Special Envoy for China and the Strategic Economic Dialogue—1308 MT, 202.622.0087
Daniel B. Wright—Managing Director for China and the Strategic Economic Dialogue—1308 MT, 202.622.0471

Office of the Under Secretary for International Affairs:

David H. McCormick—Under Secretary of for International Affairs—4448 MT, 202.622.0656
Clay Lowery—Assistant Secretary of the Treasury for International Affairs—4460 MT, 202.622.1270
Marvin J. Barth—Chief Economist/Director, Research and Risk Analysis—MT, 202.622.1270
Robert Dohner—Deputy Assistant Secretary for Asia—3204 MT, 202.622.0189
Andrew Baukol—Director, South and Southeast Asia Office—3105 MT, 202.622.2129
Mark Sobel—Deputy Assistant Secretary for International Monetary and Financial Policy—3105 NY, 202.622.0168
William C. Murden—Director, International Banking and Securities Office—3121 NY, 202.622.2775
Michael Kaplan—Director, International Monetary Policy—3101 NY, 202.622.6865
Charles Schott—Deputy Assistant Secretary for Trade and Investment Policy—4109 NY, 202.622.0237
Gay H. Sills—Director, International Investment Office and Staff Chair, Committee on Foreign Investment in the United States (CFIUS)—4201 NY, 202.622.9066
T. Whittier Warthim—Director, Trade Office—4401 NY, 202.622.1733
Steven Tvardek—Director, Office of Trade Finance—4311 NY, 202-622.1749

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Bouton: There are many dimensions to a nation's soft power, for example, economic, cultural, diplomatic, human capital, and political.

The Chicago Council attempted to measure these soft power dimensions in a questionnaire that originally included about 60 or 70 questions. We posed these questions to respondents in China, Indonesia, Japan, South Korea, the United States, and Vietnam in January and February 2008.

We then boiled down the responses to produce indices for each of the soft power dimensions. These five indices, in turn, were averaged to produce an overall "Soft Power Index"¹ (see chart below). As you can see, U.S. soft power still ranks high.

Overall Soft Power Index, 2008

| Country Rated | Country Rating | | | | | |
|---------------|--------------------------------|----------|----------|-------------|-----------|----------|
| | U.S. | China | Japan | South Korea | Indonesia | Vietnam |
| | Overall Raw Index Score | | | | | |
| U.S. | — | 0.71 (1) | 0.69 (1) | 0.73 (1) | 0.72 (2) | 0.76 (2) |
| China | 0.47 (3) | — | 0.51 (3) | 0.55 (3) | 0.70 (3) | 0.74 (3) |
| Japan | 0.67 (1) | 0.62 (3) | — | 0.65 (2) | 0.72 (1) | 0.79 (1) |
| South Korea | 0.49 (2) | 0.65 (2) | 0.56 (2) | — | 0.63 (4) | 0.73 (4) |

Source: *The Chicago Council on Global Affairs*

USAPC: Yes, indeed, and contrary to what one might expect in light of criticism about the Bush administration's lack of engagement and effectiveness in Asia.

The Chicago Council's soft power survey as well as your 2006 survey, which focused on the rise of China and India, both found that the United States still is well regarded in Asia. How do you explain this?

Bouton: To clarify, the Chicago Council set out to measure soft power. We did not attempt to measure why U.S. soft power is stronger than we expected. We could not show that U.S. soft power had declined specifically during the Bush administration's two terms in office because we did not have a prior measure of equal comprehensiveness and quality for comparison.

There are two or three hypotheses to explain why the United States still is well regarded in Asia. The first is that the Bush administration, indeed, is guilty of

¹The figures represent the average level of influence on a 0 to 1 scale when soft power questions are combined, followed by rank.

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Congressional Watch

China Currency Bill—Key members of the Senate have decided not to consider legislation this year aimed at forcing China to reform its exchange rate regime. On July 2, Senators Max Baucus (D., Montana), Christopher Dodd (D., Connecticut), Charles Grassley (R., Iowa), and Richard Shelby (R., Alabama), the chairmen and ranking members of the Senate Finance and Banking Committees, respectively, issued a statement. The lawmakers basically acknowledged that they could not reconcile differences between them about how to realize greater appreciation of China's *renminbi* (RMB) through legislation. In view of this impasse, it is unlikely that House Ways and Means Chairman Charles Rangel (D., New York) will move similar legislation through his panel and on to the House floor in 2008.

Trade Enforcement—On May 22, Senate Finance Committee Chairman Baucus held a hearing ostensibly to consider whether the administration is using all the tools at its disposal to enforce trade agreements and trade remedy laws. In reality, Baucus used the hearing to spotlight his bill, the "Trade Enforcement Act of 2007." The Baucus bill includes several provisions that would make it easier for U.S. companies to win protec-

tion from China's alleged unfair trading practices by, for example, limiting the President's ability to deny relief in "China safeguard cases." The bill also would clarify that U.S. countervailing duty provisions may be applied to imports from nonmarket economies such as China. Baucus probably will re-introduce the bill in 2009.

Trade Re-Negotiation—On June 4, Senators Sherrod Brown (D., Ohio) and Byron Dorgan (D., North Dakota) and Rep. Linda Sanchez (D., California) introduced the "Trade Reform, Accountability, Development, and Employment [TRADE] Act." The bill would require the General Accountability Office (GAO) to review all existing trade agreements and consider their economic impact, enforcement and compliance, and non-tariff provisions. The TRADE ACT also spells out standards for labor and environmental protections, food and product safety, and other requirements that must be included in new trade pacts. Importantly, the bill would require already concluded trade agreements—such as the U.S.-Korea Free Trade Agreement—to be re-negotiated to include these standards and address any other issues arising from the GAO review. The bill more likely will be fodder for campaign debate rather than action.

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North Korea

underscored the "crucial work of verifying the declaration."

Bush Lifts Sanctions—The decision of President Bush to lift certain sanctions against North Korea in response to its submission of the nuclear declaration was not well received by certain Members of Congress, however. Bush announced on June 26 that he would issue a proclamation that lifts provisions of the Trading with the Enemy Act (TWEA) with respect to North Korea. This law, enacted in 1917, restricts trade with countries hostile to the United States. Cuba now is the only country with which trade effectively is closed by the TWEA.

In addition, he notified Congress of his intent to rescind North Korea's designation as a state sponsor of terror (SST) after 45 days. During this congressionally mandated 45-day period, the United States will work through the Six-Party process to develop acceptable verification principles, a comprehensive and rigorous verification protocol, an acceptable monitoring mechanism to ensure follow-through, and commencement of verification activities, according to the State Department. "And during this period, the United States will carefully observe North Korea's actions—and act accordingly,"

President Bush said, making clear that the sanctions could be re-imposed if Pyongyang does not make a good-faith effort to cooperate.

Proliferation Concerns—Although Rep. Berman commended the White House for using the 45-day period to assess North Korea's sincerity about verification, the House Foreign Affairs Committee's ranking minority member, Rep. Ileana Ros-Lehtinen (R., Florida), sharply disagreed. She termed the administration's decision to remove North Korea's SST designation "cause for profound concern" because of unanswered questions about Pyongyang's provision of nuclear technology to Syria and Iran. "We have yet to determine if the declaration is complete and verifiable but are relinquishing one of the most valuable instruments of leverage available to the United States," Ros-Lehtinen charged.

Rep. Peter Hoekstra (R., Michigan), ranking minority member of the House Intelligence Committee, also criticized the Bush administration's deal with Pyongyang. The White House has decided that it is more important to "reach a legacy agreement than to get to the bottom of North Korea's nuclear efforts," Hoekstra said.

Monitoring Mechanism—The State Department's fact sheet about the June 26 declaration maintained that

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neglecting Asia—a point made by many Asian experts in recent years—but that the neglect has been benign.

The second hypothesis proposes that the Bush administration generally has not neglected Asia. Rather, its relations with Asia have been characterized by the right balance of involvement and non-involvement, and that approach has been helpful.

The third hypothesis is that the stock of American soft power was so high already that despite the Bush administration's neglect—benign or otherwise—our soft power in Asia still remains quite high.

There may even be a fourth hypothesis to explain the survey findings, which is related to the third. That hypothesis proposes that American soft power still may be the highest overall in the region because the soft power of China, Japan, South Korea, or other Asian nations for a variety of reasons has not reached the U.S. level. But that fact does not necessarily mean that American soft power is not in decline.

It is really impossible to sort out which of these hypotheses best explains the survey results. My personal interpretation would be that the results may be explained by a little bit of all of these hypotheses.

Importantly, however, there are interesting patterns of soft power in the region. For example, the U.S. measure of soft power was weaker in Southeast Asia generally, but particularly in Indonesia and Vietnam. Perhaps it is not surprising that Indonesians do not hold the United States in as high regard as other Asian nations. Our policies and actions in the Arab world appear to have negatively influenced Indonesian public opinion.

The reactions of Vietnamese respondents were a little more puzzling. But there is a good deal of history between the United States and Vietnam, which still may influence Vietnamese views of the United States. Too, it is important to bear in mind that a great many complaints about U.S. neglect of Asia have come from Southeast Asian commentators—not from the experts in China, Japan, or South Korea.

Overall, I think we have a positive picture of how major Asian nations regard the United States. This means that the incoming U.S. administration has some tools to work with in the region.

USAPC: There is a view that China's soft power in Asia and elsewhere is outstripping that of the United States. But your report concludes that "great power" does not necessarily mean "soft power," particularly with respect to China. Please elaborate.

Bouton: We do not have a measure of China's soft power 10 or even five years ago. So, just as it is difficult

to determine the extent to which U.S. soft power has diminished in recent years, so, too, is it hard to know the extent to which China's overall soft power has increased.

But it is apparent from the Council's data as well as from any noteworthy analysis of regional developments that China's economic soft power certainly has increased. Our survey yielded extensive data indicating that other Asian nations regard China as an emerging regional, if not global, economic power.

The survey also revealed the extent to which the Chinese value an open economy and their nation's involvement in the global economy. The Chinese have not seen a free trade agreement (FTA) they do not like. Whereas the Americans have not seen a FTA they do like! That, alone, is an interesting comparison of American and Chinese attitudes about trade and globalization.

There is no question that China's role in Asia has become more important owing to its economic interactions with its neighbors. The question we asked was, "Do you think China will emerge as a regional power?"

The survey revealed the extent to which the Chinese value an open economy

Majorities in most of the Asian countries said yes—as did Americans, by the way.

China's growing economic soft power is not the issue. Rather, the issue we tried to grapple with via the survey was whether China's economic power is beginning to translate effectively into other dimensions of soft power. Asian experts have observed China's diplomacy in the region, particularly in Southeast Asia, and argued that, in their estimation, it is quite skillful. I certainly would concur with this judgment.

Yet, we did not see the impact of China's diplomatic successes in Asia in the survey results. We now have a benchmark, however, so we hope in another three to four years to conduct the survey again. At that point, we will have solid data that will enable us to make comparisons.

USAPC: During the 1980s, many Americans viewed Japan as an economic juggernaut that was poised to take over the U.S. economy. What did the survey reveal about attitudes toward trading partners and globalization?

Bouton: As I mentioned earlier, Americans are very suspicious about FTAs and economic engagement with other countries in Asia. Interestingly, though, Americans are less anxious now about economic relations with Japan. That represents a real shift from the late 1980s right up through the mid-1990s. The Council's other biannual public opinion studies in 2002, 2004, 2006 all revealed a slow, steady decline of American concern

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about economic competition from Japan.

In some respects, China now has replaced Japan in the minds of many Americans as a country whose economic competition is cause for concern. Even the Japanese, despite other problems in their relations with certain Asian nations, reacted favorably to the prospect of entering into FTAs with their Asian neighbors, including China.

The Japanese become more guarded when asked about Chinese military power, but clearly they recognize that the rise of the Chinese economy has been beneficial to them.

In general, the survey data revealed that Asians are far more open and optimistic about trade than are Americans (see following chart).

| Views of | Countries | | | | |
|---------------|-----------|-------|-------|-------------|-------|
| | U.S. | Japan | China | South Korea | ASEAN |
| Americans | — | 59 | 41 | 49 | NA |
| Japanese | 63 | — | 53 | 63 | 63 |
| Chinese | 84 | 79 | — | 82 | 84 |
| South Koreans | 75 | 74 | 67 | — | 76 |

Source: The Chicago Council on Global Affairs

USAPC: Historically, Japan’s relations with both China and South Korea have been fraught with stresses and strain. Were these tensions still apparent in the survey results?

Bouton: Yes, they certainly were. We have a series of survey questions pertaining to Sino-Japanese relations. As we reported, there are some encouraging signs that the Japanese public, in particular, feels more favorably toward China than we had hypothesized at the outset. But, as I mentioned earlier, when the survey questions probed into issues relating to the rise of Chinese power overall, and particularly Chinese military power, there was a very distinct shift in Japanese opinion.

For instance, when we asked Japanese respondents if they saw China becoming the leader of Asia and whether

they were comfortable with that prospect. Fifty-five percent of Japanese replied that they could see China becoming the leader of Asia, but only 10 percent indicated they were comfortable with that outlook. So there is a very big gap there (see following chart).

| | Percentage Saying | |
|---------------|--|--------------------------------------|
| | China Will Be Leader of Asia in Future | Will Be Very or Somewhat Comfortable |
| Americans | 68 | 27 |
| Japanese | 55 | 10 |
| South Koreans | 78 | 21 |
| Vietnamese | 71 | 56 |

Source: The Chicago Council on Global Affairs

The gap in confidence about China’s rise as a leader of Asia also extended to the South Koreans, who, on the whole, have been less anxious about China’s growing power than the Japanese. The Vietnamese, in contrast, not only see China becoming a leader in Asia, but were quite comfortable with that development.

A pattern emerged across quite a few different questions that reflected Japanese concern about the rise of Chinese power. When we asked whether the United States and Japan should work together to contain the rise of Chinese power—we used different phrasing, but that was the essence of the question—a majority of Japanese said yes. The Japanese still see the United States as their key ally in the region and the hedge against the rise of Chinese power, particularly Chinese military power.

USAPC: You have spoken to different groups around the United States about the survey findings. Were there any questions or comments about the soft power survey that surprised you?

Bouton: There have been many questions about methodology. Not a few foreign policy experts have this idea that the general public simply does not know certain things or is confused in its thinking about certain issues so, “How could these results be possible?!”

The Chicago Council has explained the methodology we used in this and previous surveys. Our methodology

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is sound. That is not to say that questions can be worded in a variety of ways that make a difference in the outcome. We all know that from polling.

The important thing is to look at the patterns, not only patterns across countries, but patterns within countries. You get a very good sense from the data whether the replies of respondents more or less are on track. There should be some rough consistency. We have found that to be the case in the soft power study as in others.

We think we have tapped something real and important. These are trends of opinion. Basically, we have taken a snapshot. It provides a way to stimulate our thinking about some problems rather than offer an eternal truth.

USAPC: The soft power report warns of a “worrisome disconnect” between American and Chinese views of each other. How do we close that gap?

Bouton: This goes back to my earlier comments about China replacing Japan in the minds of many Americans as the feared source of economic competition. I would say that Americans have not passed a tipping point yet, in the sense that they have not yet concluded that our economic relationship with China is on balance more threatening to us than more helpful to us.

I believe most Americans generally understand that there are winners and losers. The winners would be the great majority of American consumers who can buy goods more cheaply and U.S. companies that have thrived because they have been able to manufacture at low cost in China. And those winners outweigh the losers.

Nevertheless, more Americans are viewing China as the poster child for a growing sense of economic insecurity in the face of the rapid economic change otherwise brought on by globalization.

The challenge for the next administration is to reframe the debate. Currently, the debate about China is trending toward a “them vs. us,” “we’re losing our jobs to them,” zero-sum kind of argument. The next administration has to turn that narrative around. It must develop a new story to tell—a true story—for the American people that this ultimately is about U.S. competitiveness in a global economy.

In many respects, the United States already is a globally competitive, very strong, resilient, adaptive economy. But we must modernize our economy and at the same time create a basic sense of economic security for the average American.

That means not only expanding trade adjustment

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Special Event

Emerging Asian Regionalism: A Partnership For Shared Prosperity—The Asian financial crisis of 1997–98 underscored the importance of regional cooperation and served as the impetus for the development of a uniquely Asian regionalism, characterized by openness, multi-tracks, pragmatism, and “bottom-up” governance, according to experts from the East-West Center and Asian Development Bank (ADB).

Dr. Jong-Wha Lee, Head of the ADB Office of Regional Economic Integration, Dr. Peter Petri, Professor of International Finance, Brandeis University, and Senior Fellow, East-West Center, and Dr. Giovanni Capannelli, Senior Economist, ADB, unveiled the findings and recommendations of ADB’s landmark study at a special program on July 9 at the East-West Center in Washington (EWCW). The EWCW/U.S. Asia Pacific Council, the ADB, and the U.S. Chamber of Commerce sponsored the event.

The full report may be accessed at --
<http://www.adb.org>

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North Korea

North Korea’s statement on July 26 included information about its HEU program and proliferation activities. The fact sheet further stated that these issues also can be addressed via a monitoring mechanism that will be established in one of the Six-Party working groups. “North Korea understands that it has a responsibility to answer questions and to provide verification concerning what has happened with their HEU program and with their proliferation activities,” Secretary of State Condoleezza Rice told reporters that same day.

Congressional Recourse—Congressional critics were skeptical, however. Ros-Lehtinen and Rep. Brad Sherman, (D., California), chairman of the Subcommittee on International Terrorism, Nonproliferation, and Human Rights, introduced a bill on July 26. It would freeze the 45-day review period, preventing the rescission of SST sanctions until Pyongyang provides a full accounting of its HEU program, existing nuclear weapons, and proliferation to countries such as Syria. Lawmakers also could block the SST rescission through enactment of a joint resolution. In short, Congress conceivably could upend the fragile second phase of the Six-Party deal, particularly if North Korea shows any reluctance to cooperate on verification. ♦

Asia Pacific Dialogue

Asia Pacific Economic Cooperation (APEC):

APEC Business Advisory Council (ABAC)— ABAC held the second of its four meetings in 2008 in Moscow on May 12–14. The group, which consists of up to three businesspersons from each APEC member economy, discussed the global credit market contraction, the impacts of food shortages and drastic price increases, and the situation in the stalled WTO round of trade negotiations.

Notably, ABAC called on the APEC Trade Ministers to reassess policies and programs in the APEC Food System (AFS). The AFS, adopted in 1999, provides comprehensive programs for rural development and food security. Later this year, ABAC likely will urge leaders to draw on AFS provisions in developing long-term solutions to the current food crisis.

APEC Trade Ministers Meeting— APEC Ministers Responsible for Trade (MRT) met in Arequipa, Peru on May 31–June 1. They noted substantial progress on key issues that heretofore have held up the WTO trade negotiations, such as the recent release of revised negotiating texts on agriculture and non-agricultural market access. The MRT official statement expressed their determination to bring the global trade talks to a successful conclusion this year.

The trade ministers also devoted considerable time discussing the food crisis. Their statement stressed that export controls, import barriers, and other market-dis-

torting measures only serve to exacerbate the crisis. Rapid completion of the WTO round, “with an ambitious and balanced outcome,” also would be an important factor in overcoming this serious international situation, the trade ministers declared.

Key Official Meetings, July–August 2008:

- **President Bush** attended the G–8 Summit, July 7–9, Toyako, Hokkaido, Japan.
- **U.S. Trade Representative Susan C. Schwab** will attend a World Trade Organization (WTO) Ministerial, July 21, Geneva, Switzerland.
- **U.S. Secretary of State Condoleezza Rice** is expected to attend the 15th meeting of the Association of Southeast Asian Nations (ASEAN) Regional Forum, July 24, Singapore.
- **Indonesian Minister of Trade H.E. Mari E. Pangestu** will meet Ambassador Schwab and other senior trade officials to discuss the U.S.-Indonesia Trade and Investment Framework Agreement (TIFA), July 28, Washington, D.C.
- **President Bush** will attend the opening ceremony of the XXIX Olympic Games, August 8, Beijing, China.
- **Ambassador Patricia M. Haslach**, Senior U.S. Official to APEC, will attend the third Senior Officials Meeting (SOM), August 12–23, Lima, Peru.

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assistance, which is something we already have but in very small measure, but more importantly it also means investing in infrastructure, widening access to higher education, investing in primary and secondary education, resolving the health-care dilemma so this issue no longer constantly hovers over 50-60 million Americans, investing in a retirement system that people can count on, and investing in immigration reform. It is a long list of domestic policies.

The next president might then stand before the American people and say, “I’ve got a deal for you. We’re going to make your health care more secure, create greater access to high-quality education for your kids, make sure no one in retirement will end up below the poverty line, and so forth.” And the American public’s part of the deal would be to allow the United States to remain open to economic involvement in the world.

Some commentators are skeptical that the United

States would ever resort to full-blown protection because we are so entangled in the global economy. But I like to remind people that the last great period of globalization in 1880-1920 came to a halt as a result of growing disillusionment with the painful costs of industrialization and a failed war.

One could draw a very rough, historical analogy between that period and this one, between 1980 and 2010. There has been rapid economic growth, growing prosperity fueled by technological change and an open global economy, inadequate development of a safety net to address the needs of “losers,” and a failed war. The next administration needs a new way of thinking about challenges now facing America. ♦

Dr. Marshall Bouton is president of The Chicago Council on Global Affairs.

Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion is available at—
<http://www.thechicagocouncil.org>

U.S.-China Investment Talks Draw Fire From Capitol Hill

Treasury Secretary Henry Paulson hailed the fourth meeting of the U.S.-China Strategic Economic Dialogue (SED), held July 17–18 in Annapolis, Maryland, as “leading to progress on a number of fronts . . . and creating a foundation for timely progress going forward.” Participants in the bilateral, cabinet-level forum (1) agreed to

launch bilateral investment treaty negotiations, (2) concluded a 10-year accord to enhance collaboration on energy security and environmental sustainability, (3) signed work plans to implement agreements covering the safety of food, drugs, medical products, and animal feed, and (4) reached several agreements aimed at further opening China’s financial services sector.

BIT Breakthrough—In particular, senior U.S. officials touted the agreement to pursue bilateral investment treaty (BIT) negotiations as an important achievement of the SED. “The conclusion of a BIT would send a powerful

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Regulatory Update

Treasury Department Semiannual Report to Congress on International Economic and Exchange Rate Policies—The Treasury Department’s so-called “exchange rate” report, issued on May 15, once again did not find that China or any other major U.S. trading partner was manipulating its currency. The report noted that the *renminbi* (RMB) had appreciated against the dollar by 18.4 percent since July 2005. But the “pace of appreciation needs to continue in order to address the continuing substantial undervaluation of the RMB and the risks China is creating for itself, the Asian region, and the world economy in which China is playing a greater role,” the report stated.

Nevertheless, authors of the report still did not find that China meets the requirements for designation as a currency manipulator. Such designation would require Treasury to initiate expedited negotiations in the International Monetary Fund or bilaterally to ensure that China “regularly and promptly” adjusts its exchange rate to eliminate the unfair advantage (see <http://www.treas.gov>).

WTO Case Challenging EU Tariffs on Certain High Technology Products—On May 28, the United States and Japan requested World Trade Organization (WTO) dispute settlement consultations with the EU regarding duties it is imposing on certain products that should be duty-free under the WTO Information Technology Agreement (ITA). If the consultations fail to resolve the dispute within 60 days, the United States and Japan can request a panel to determine whether the EU is acting consistently with its WTO obligations.

“Over the past few years, the EU has been imposing duties that can run as high as 14 percent on specific items, in spite of the fact that as signatories to the ITA they obligated themselves to duty-free treatment for these products,” U.S. Trade Ambassador Susan C. Schwab said. “The EU should be working with the

United States to promote new technologies,” (see <http://www.ustr.gov>).

U.S. Beef Exports to South Korea—Senate Finance Committee Chairman Max Baucus (D., Montana), the U.S. beef industry’s leading advocate in Congress, dismissed the South Korean government’s decision on June 21 to put into effect an agreement reached by Washington and Seoul on April 18. That accord will allow U.S. beef from cattle under 30-months of age to be shipped to South Korea as a transitional measure to improve Korean consumer confidence in U.S. beef. In 2003, Seoul imposed a ban on U.S. beef imports after a case of mad cow disease was detected in the United States.

“I’ve been very clear that Korea should accept imports of all U.S. beef . . . regardless of the age of the cattle, and international scientific standards say I’m right,” Baucus said. “This agreement set[s] an unfortunate precedent for U.S. beef trade with Korea and other countries. I will review it closely.”

U.S.-Japan Regulatory Reform and Competition Policy Initiative—On July 5, the Office of the U.S. Trade Representative (USTR) issued the seventh report under the U.S.-Japan Regulatory Reform and Competition Policy Initiative. USTR welcomed Japan’s latest initiatives to improve the environment for foreign direct investment, among other market liberalizing measures. However, USTR took Japan to task for failing to use a “science-based approach” consistent with international standards and requirements to fully resolve several agricultural issues, including U.S. access to Japan’s beef market. “Japan’s unwillingness to fully open its market to U.S. beef and beef products, despite scientific evidence and international standards that underscore the safety of U.S. beef, remains a great concern,” Ambassador Schwab said (see <http://www.ustr.gov>).

Investment Talks

signal that our two countries are committed to open investment and to treating each other's investors in a fair and transparent manner," Treasury's SED fact sheet stated. American business has argued that China has been using cumbersome regulations, restrictive industry standards, and other policies for the express purpose of limiting U.S. investment, particularly in the telecommunications and financial services sectors.

China, in turn, has countered that Washington has employed certain statutes to block Chinese investment in key industries on grounds that Chinese ownership potentially would undermine U.S. national security interests. A BIT would provide both countries with greater clarity about standards and nondiscriminatory treatment of their investments. It also would enable the United States and China to seek arbitration at the World Trade Organization (WTO) if either party feels its rights under the BIT are being infringed.

China's Currency—Notwithstanding the SED's impressive outcome, not a few Members of the House and Senate reacted coolly to the latest meeting of bilateral cabinet-level forum. Senate Finance Committee Chairman Max Baucus (D., Montana) suggested that if the SED were the Olympics, "the talks would have a few bronze medals—but unfortunately, no silvers or golds." Baucus' chief complaints were that the twice yearly talks have yet to accelerate reform of China's exchange rate regime or open China's market to U.S. beef exports.

House Ways and Means Committee Chairman Charles Rangel (D., New York) and House Trade Subcommittee Chairman Sander Levin (D., Michigan) echoed Baucus' criticism about the Bush administration's lack of success in affecting reform of China's currency policy. "The Bush administration has failed to stop China from manipulating its currency, despite more than five years of dialogue at the highest levels," they argued.

'Process' not Pressure—Treasury has dismissed this criticism. The department's post-SED fact sheet noted that China's *renminbi* (RMB), in fact, has appreciated more than 20 percent against the U.S. dollar since July 2005. U.S. officials have attributed the steady appreciation of the RMB to the success of SED-type engagement.

Secretary Paulson and other U.S. officials also have repeatedly stressed in testimony and meetings with American lawmakers that the cabinet-level talks are not aimed at developing quick-fixes for contentious issues. Rather, the SED is better viewed as a process of engagement between the United States and China to facilitate management of economic relations in the longer term, they have maintained.

Lame Duck Realities—But Rangel, Levin, and other Democrats eyeing the remaining months of the Bush

administration appear unimpressed by arguments about engagement "processes." Their priorities in the remaining months of the 110th Congress are: (1) to demonstrate to voters who have become fearful of China's rise that they are watching out for their interests and (2) to prevent current policymakers from effectively tying the hands of a future administration, particularly with respect to U.S.-China relations. It is unclear whether the future president will continue the SED forum or something like it.

BIT Objections—Rangel and Levin therefore co-authored a letter on June 18 to Paulson, Secretary of State Condoleezza Rice, and U.S. Trade Representative Susan Schwab, as a shot across the bow, of sorts. The lawmakers expressed "serious concerns" about the agreement to launch BIT talks with China. They argued that such negotiations would be a major undertaking necessitating "additional requirements . . . to address problems for U.S. investors raising out of the particular nature of China's economy and political and judicial systems."

Related to this, they observed there is not enough time left on the Bush administration's watch to complete negotiations of this complexity. "If the administration moves forward with these negotiations, it should make clear to China that all major decisions in the negotiations necessarily will be left to the next president," Rangel and Levin underscored.

The administration, in fact, made clear that it was in

Rangel and Levin seized the opportunity created by the SED to criticize the Bush administration's China policy

no rush to conclude these negotiations before leaving office. "The timeline for concluding the negotiation will be determined by the quality of the agreement. We believe a high-standard BIT is clearly in our mutual economic interests," Treasury's fact sheet stated.

Finally, the Congressmen blasted the Bush White House for launching the BIT in the absence of a "coherent and effective strategy" for U.S. international economic policy as a foundation. This shortcoming is reflected in the United States' "massive and growing trade deficit with China (increasing from \$82 billion in 2000 to \$251 billion in 2007), and in China's unprecedented trade surplus with the world," Rangel and Levin charged.

Outlook—The SED joint statement does not indicate exactly when the BIT negotiations will begin, only that the two countries agreed to launch the talks. In any event, it is unlikely that the letter from Rangel and Levin alone will derail the BIT initiative. The influential trade lawmakers seized the opportunity created by the SED to reiterate their oft-stated criticism of the Bush administration's management of U.S.-China economic relations. They also served notice that a BIT with China—concluded by the Bush administration or its successor—would receive tough scrutiny on Capitol Hill. ♦



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Director

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