



Washington REPORT

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

Volume 2 March 2009

Tackling Global Economic, Diplomatic Challenges In The 111th Congress

USAPC Interview with Hon. Howard Berman (D., California)

Rep. Howard Berman (D., California), chairman of the House Foreign Affairs Committee, set forth an ambitious agenda for the 111th Congress. It includes broad programmatic improvements, such as reforming the U.S. foreign assistance system and enhancing the personnel capabilities of civilian foreign affairs agencies. It also includes challenges caused by the global economic crisis, the deterioration of the environment, the behavior of certain rogue nations, and the economic and political rise of China.

Among other insights, Chairman Berman proposes that the United States draw on the lessons that Asia learned from its economic crisis in the 1990s as we endeavor to turn our own economy around. He also emphasizes the importance of continuing to engage China in tackling economic, political, and security challenges in Asia.

USAPC: You have indicated that a priority in the new Congress will be to re-write the Foreign Assistance Act of 1961 and reform the U.S. foreign assistance system. What are the most serious systemic weaknesses and how should they be rectified?

Berman: Our current system of foreign assistance is severely hindered by the duplication of programs among the various agencies involved, inadequate coordination among them, the lack of clear purposes and objectives, and—especially with respect to USAID [U.S. Agency for International Development]—a basic lack of capacity to implement programs on the ground.

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Economic Crisis Affects Early Action On Trade

Members of the 111th Congress moved quickly in the first weeks of the new session to pass legislation aimed at supporting American workers who have been impacted by global economic forces and protecting certain U.S. manufacturing industries.

Congressional insiders say that such action was driven by a bipartisan sense of “pragmatism” in response to the dire straits caused by the economic crisis. They maintain this does not necessarily portend greater protectionism, particularly

toward the nations of the Asia Pacific.

But some developments suggest otherwise. Legislation has been introduced in the House and likely will emerge in the Senate soon ostensibly aimed at strengthening enforcement of trade laws more generally, but in reality, targeted at China’s alleged unfair trading practices.

In addition, there continue to be deep divisions on Capitol Hill about whether the U.S.-Korea Free Trade Agreement (KORUS) appropriately accords market access to certain U.S.

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Berman Interview

Many of these problems stem from the fact that the basic legal framework for foreign assistance, the Foreign Assistance Act of 1961, is badly outdated. Others are the result of inadequate resources.

Over the past decade, there have been a number of *ad hoc* efforts to reform our foreign assistance programs through new initiatives—such as the Millennium Challenge Account—new mandates, and more congressional and administration directives. We need a more systematic approach

USAPC: Secretary of State Clinton has indicated that a priority for the new administration will be to devote more resources to developing civilian capacity to conduct vigorous American diplomacy, provide greater foreign assistance, and operate effectively alongside the U.S. military. Do you think this will give greater impetus to congressional action in 2009 on a Foreign Relations Authorization Act?

Berman: I applaud Secretary Clinton's commitment to rebuilding the capacity of the State Department and USAID, the premier diplomatic and development agencies of the U.S. government.

I do think her interest in these areas will help generate support in Congress for foreign assistance reform and a Foreign Relations Authorization Act, and I look forward to working with her on these legislative initiatives.

USAPC: Some experts have suggested that the new Congress and the Obama administration may have problems building grass-roots support for an expanded diplomatic and foreign aid effort during these difficult economic times.

According to this view, the beleaguered American public would prefer that the government focus resources and energy on boosting the U.S. economy and creating jobs. How would you persuade your constituents that the new focus advocated by Secretary Clinton is important?

Berman: Diplomacy and development are two of the three key pillars of the U.S. national security strategy (the other being defense). I have always argued that reducing poverty and promoting economic growth and stability in developing countries serves U.S. national security interests.

The American people are also keenly aware that prosperity and stability abroad provide new markets and partners for American companies, thus boosting the U.S. economy. One of my key goals for foreign assistance reform is to make our assistance programs more efficient

so the taxpayers get "more bang for the buck."

USAPC: How should Washington respond if voices in Asia increasingly blame the United States for the global financial crisis?

Berman: While the frustration and anxiety of Asian nations is understandable, in today's interconnected global marketplace it is impossible to assign the blame for the current global financial crisis to any single country. Whatever the causes of the crisis, the international community is clearly looking to the United States for leadership in restoring the health of the global economy.

As we tackle the largest economic shock in generations, we must make it clear to all of the world economies—including those in Asia—that the United States seeks to approach this problem globally. We should draw on the lessons that Asia learned from its crisis in the 1990s: the need for international cooperation, financial transparency, and corporate responsibility.

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USAPC: U.S.-China relations face a broad array of economic, political, diplomatic, and security-related challenges. What are the most pressing issues the Obama administration should tackle?

Do you think cabinet-level dialogue, such as the U.S.-China Strategic Economic Dialogue instituted by the Bush administration, is an effective means of engagement?

Berman: The U.S.-China relationship is one of the most important and complex in world affairs. The Obama administration now has the difficult challenge of managing this relationship in a way that addresses the serious concerns we have regarding a number of China's policies while at the same time strengthening our cooperation with Beijing in other areas in which we have shared interests.

We must continue to press China on issues such as human rights abuses, lack of military, economic and political transparency, stalled democratic reforms, and support for oppressive regimes, such as those in Sudan and Burma.

At the same time, we should seek to build on the positive cooperation developed in the context of the Six-Party process [aimed at ending North Korea's nuclear program] to address other difficult issues. These would include Iran's development of a nuclear weapons capability, global climate change and energy security.

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Subcommittee Assignments: 111th Congress*

Senate Appropriations Subcommittee on State, Foreign Operations, and Related Programs

Patrick J. Leahy (D., Vermont) - Chair
Daniel K. Inouye (D., Hawaii)
Tom Harkin (D., Iowa)
Barbara Mikulski (D., Maryland)
Richard J. Durbin (D., Illinois)
Tim Johnson (D., South Dakota)
Mary L. Landrieu (D., Louisiana)
Jack Reed (D., Rhode Island)

Judd Gregg (R., New Hampshire) – Ranking Minority Member
Mitch McConnell (R., Kentucky)
Arlen Specter (R., Pennsylvania)
Robert F. Bennett (R., Utah)
Christopher “Kit” Bond (R., Missouri)
Sam Brownback (R., Kansas)
Lamar Alexander (R., Tennessee)

House Appropriations Subcommittee on State, Foreign Operations, and Related Programs

Nita M. Lowey (D., New York) – Chair
Jesse L. Jackson, Jr. (D., Illinois)
Adam Schiff (D., California)
Steve Israel (D., New York)
Ben Chandler (D., Kentucky)
Steven R. Rothman (D., New Jersey)
Barbara Lee (D., California)
Betty McCollum (D., Minnesota)
David Obey (D., Wisconsin) - *Ex Officio*

Kay Granger (R., Texas) – Ranking Minority Member
Mark Steven Kirk (R., Illinois)
Ander Crenshaw (R., Florida)
Dennis R. Rehberg (R., Montana)
Jerry Lewis (R., California) - *Ex Officio*

Senate Finance Subcommittee on International Trade and Global Competitiveness

Ron Wyden (D., Oregon) - Chair
John D. Rockefeller, IV (D., West Virginia)
Jeff Bingaman (D., New Mexico)
John Kerry (D., Massachusetts)
Debbie Stabenow (D., Michigan)
Maria Cantwell (D., Washington)
Robert Menendez (D., New Jersey)

Mike Crapo (R., Idaho) - Ranking Minority Member
Olympia Snowe (R., Maine)
Jim Bunning (R., Kentucky)
Pat Roberts (R., Kansas)

House Ways and Means Subcommittee on Trade

Sander Levin (D., Michigan) - Chair
John S. Tanner (D., Tennessee)
Chris Van Hollen (D., Maryland)
Jim McDermott (D., Washington)
Richard E. Neal (D., Massachusetts)
Lloyd Doggett (D., Texas)
Earl Pomeroy (D., North Dakota)
Bob Etheridge (D., North Carolina)
Linda T. Sanchez (D., California)

Kevin Brady (R., Texas) - Ranking Minority Member
Geoff Davis (R., Kentucky)
Dave G. Reichert (R., Washington)
Wally Herger (R., California)
Devin Nunes (R., California)
Ginny Brown-Waite (R., Florida)

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Berman Interview

From the time that [former Secretary of State] Henry Kissinger first went to China to pave the way for President Nixon's historic visit there in 1972, high-level dialogues between the US and China have played an important role in our relationship. The Obama administration would be wise to continue this tradition of senior-level discussions that help build a strategic framework for our engagement.

USAPC: Most experts agree that the success of any global climate change initiative depends on the extent to which China, India, and other large energy consumers are engaged effectively in this effort.

What economic or foreign policy tools could Congress provide the Obama administration to facilitate such bridge-building?

Berman: China is the world's second-largest consumer of energy after the United States and is the largest

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Subcommittee Assignments: 111th Congress*

Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs

Jim Webb (D., Virginia) – Chair
Christopher Dodd (D., Connecticut)
Russell D. Feingold (D., Wisconsin)
Barbara Boxer (D., California)
Robert P. Casey, Jr. (D., Pennsylvania)
Kirsten E. Gillibrand (D., New York)

Republican Leader Designee – Ranking Minority Member**
Johnny Isakson (R., Georgia)
John Barrasso (R., Wyoming)
Roger F. Wicker (R., Mississippi)

House Foreign Affairs Subcommittee on Asia, the Pacific, and the Global Environment

Eni F. H. Faleomavaega (D., American Samoa) - Chair
Gary Ackerman (D., New York)
Diane Watson (D., California)
Mike Ross (D., Arkansas)
Brad Sherman (D., California)
Eliot L. Engel (D., New York)
Gregory W. Meeks (D., New York)

Donald A. Manzullo (R., Illinois) - Ranking Minority Member
Bob Inglis (R., South Carolina)
Dana Rohrabacher (R., California)
Edward R. Royce (R., California)
Jeff Flake (R., Arizona)

**These subcommittees have jurisdiction over most legislation that would affect U.S. economic, political, and cultural relations with the nations of the Asia Pacific.*

***At press time, this position was still vacant.*

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Berman Interview

emitter of carbon dioxide on the planet. No solution to the problem of climate change will be effective if it does not address China's emissions.

While the Chinese leadership has said repeatedly that it will address the serious challenges posed by environmental degradation and climate change, Beijing remains concerned that responding to these challenges may threaten economic growth and social stability.

We must make it clear to the Chinese leadership that the United States is serious about reducing its own emissions, and that China has a responsibility as a rising global power to deal with this pressing issue. At the same time, we should think creatively about engaging China on the development and application of clean energy technologies that will reduce greenhouse gas emissions and expand opportunities for economic growth.

USAPC: The Six-Party Process collapsed late last year. What approach would you like to see the Obama administration use to secure denuclearization of the Korean Peninsula? What sort of congressional oversight do you anticipate?

Berman: There are no easy solutions to the problem of North Korea. However, experience has shown that efforts to isolate Pyongyang are at best ineffective, and at

worst counterproductive.

When the previous administration pursued a policy of isolation, North Korea responded by producing more weapons-grade plutonium and testing a nuclear device. It was only after that policy was abandoned in favor of the Six-Party process that any progress was made toward denuclearization.

Regrettably, that process has stalled. But that doesn't mean we should abandon tough engagement. On the contrary, we must redouble our efforts, in close cooperation with our partners, to attain the full and verifiable denuclearization of North Korea.

We must make it clear to the Chinese leadership that the United States is serious about reducing its own emissions

The specific form of future negotiations ultimately will be a decision of the Obama administration. Congress has consistently played an active oversight role with respect to our efforts to denuclearize the Korean Peninsula. I expect this rigorous oversight to continue. ♦

Rep. Howard Berman (D., California) has represented California's 28th congressional district (greater Los Angeles area) since 1983. In addition to chairing the House Foreign Affairs Committee, he serves as vice chair of the House Judiciary Committee.

Trade Legislation

industries. Leading Democrats also have expressed reluctance to renew the president's Trade Promotion Authority (TPA), which may limit the extent to which Washington can play a leading role in bilateral, regional, and global trade talks.

Key trade lawmakers have proposed that 2009 will be about restoring faith in trade policy in Congress and rebuilding a congressional-executive partnership. In reality, some critics counter, the price for that "progress" could be legislation that creates more tension in U.S. relations with key trading partners, particularly in Asia, and undermines Washington status as an strong advocate of liberal trade.

"Buy America" Provisions—The first suggestion that Members of the new Congress might be turning inward on trade policy appeared in the massive American Recovery and Reinvestment Act of 2009. Lawmakers inserted a provision in the \$790 billion stimulus bill that requires all iron, steel, and manufactured goods used in public works projects funded by the bill to be produced in the United States.

U.S. business associations and foreign governments protested loudly that such language violated global trading rules and risked touching off a trade war. The White House also expressed concern that the provision would run counter to the pledge made by the United States at the G-20 meeting in October 2008 not to take any trade-restrictive actions in response to the global economic downturn.

House and Senate lawmakers who negotiated the final package added a proviso that the "Buy America" requirements must be "applied in a manner consistent with United States obligations under international agreements." This language refers to U.S. commitments under WTO Agreement on Government Procurement and under U.S. free trade agreements (FTA).

In practical terms, according to congressional staff, this means that iron, steel, and manufactured goods used in stimulus-funded projects cannot be sourced from China or any other country that is not a signatory to the WTO procurement agreement and/or has not concluded a FTA with the United States.

The Obama administration hailed the proviso as the "right compromise" that respects the Buy America laws already on the books "while also ensuring that the language doesn't create unnecessary trade disagreements in a time of crisis."

President Obama will learn shortly whether U.S. trading partners share this view. Not a few experts anticipate that the American president will hear a good deal of criticism of the "Buy America" element of the stimulus bill

Regulatory Update

United States Wins WTO Dispute About China's Lax Intellectual Property Rights Laws—In recent years, influential Members of Congress and U.S. trade officials have been highly critical of China's enforcement of intellectual property rights (IPR). They argued that deficiencies in China's IPR regime served as non-tariff barriers, of sorts, because they effectively discouraged U.S. companies from selling products in the Chinese market.

Not surprisingly, American critics applauded the finding of the World Trade Organization (WTO) Dispute Settlement Panel on January 26. The panel found that important aspects of China's IPR regime are inconsistent with Beijing's obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). "Intellectual property is a key driver of America's economy, and we must continue to push China in the WTO and elsewhere to protect American innovators' rights in that country just as they are protected here at home," said Senate Finance Committee Chairman Max Baucus (D., Montana) in reaction to the ruling.

In April 2007, Washington filed a WTO complaint against China arguing that Beijing (1) failed to provide copyright protection to products that did not meet China's "content review" (censorship) standards; (2) improperly allowed counterfeit goods seized by China's customs authorities to enter the Chinese market once the infringing trademark was removed; and (3) wrongfully created legal thresholds that had to be met before pursuing criminal prosecution of counterfeiting and piracy.

In the January 26 decision, the WTO panel basically ruled in favor of the United States on the first two claims. With respect to the third, however, the international trade law body found that it needed more evidence in order to conclude that actual thresholds for prosecution in China's criminal law are overly high.

when he meets other leaders of the G-20 nations on April 2 in London—if not calls for revoking the anti-protectionism pledge. Major American exporters also remain worried that foreign governments may retaliate by refusing to buy big-ticket, U.S.-made products, such as civilian aircraft.

Trade Adjustment Assistance—Another important trade-related provision that lawmakers added to the stimulus bill will expand the U.S. Trade Adjustment Assistance (TAA) program. TAA is a domestic program

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aimed at providing financial and re-training assistance to workers who have lost their jobs owing to trade competition. But its supporters argue that a well-functioning TAA “safety net” is a critical complement to a liberal trade policy.

In fact, Senate Finance Committee Chairman Max Baucus (D., Montana) has held up congressional action on long-concluded FTAs with Colombia, Panama, and South Korea for a variety of reasons that included problems associated with moving TAA reform through Congress. He has been adamant that enactment of TAA reforms must precede any legislation that would further liberalize U.S. trade with these nations.

The TAA provisions of the stimulus bill will (1) extend TAA coverage to the service sector, (2) extend coverage to workers whose firms shift production to countries that do not have FTAs with the United States, (3) increase the health care tax credit for trade-displaced workers, (4) provide TAA benefits to entire communities affected by trade, and (4) extend TAA benefits to many secondary workers, including those who perform transportation, testing, and airline maintenance services, among other changes.

Insiders attribute the sweeping nature of the TAA improvements to unprecedented bipartisan and bicameral cooperation, no doubt reflecting the shared urgency of lawmakers to help beleaguered constituents. “My colleagues and I struck this agreement to improve and expand TAA because we knew it was the right thing to do. American workers will benefit because we all worked together,” Baucus said in hailing its passage.

Free Trade Agreements—Republican supporters of TAA expansion clearly viewed its approval as a green light to move on a “pro-growth” trade agenda, which would include approval of pending FTAs and renewal of TPA. “Now that we’ve improved TAA, we need to move forward with our trade agenda to increase our exports and create more jobs here in the United States,” said Rep. Dave Camp (R., Michigan), who is the ranking minority member of the House Ways and Means Committee.

Chairman Baucus and House Ways and Means Chairman Charles Rangel (D., New York) have expressed support for initiatives that will expand trade, for example, by improving the operations of the U.S. Customs Service, reducing or suspending tariffs on certain items, or revamping certain trade preference programs. But they may continue to differ sharply with their Republican colleagues on the approval of pending FTAs. Rangel, in particular, has been adamant that until and unless trade union violence is addressed within the context of the Colombia FTA, this accord should not be approved.

With respect to KORUS, Democrats in both houses

have argued that the accord does not eliminate various non-tariff barriers that restrict the sale of American-made automobiles in the Korean market.

Congressional critics of KORUS recently appeared to receive a boost from U.S. Trade Representative-Designate Ron Kirk. The former Dallas, Texas mayor said at his confirmation hearing before the Senate Finance Committee on March 9 that the trade accord South Korea, as concluded by U.S. and Korean negotiators in June 2007, “is simply unfair.” He added that “[the Obama administration is] prepared to step away from KORUS if it is not reworked. Admittedly, Kirk made it a point to say that the Obama administration believes KORUS represents an important economic opportunity for both nations. However, his critique of “unfairness” will be seized by opponents on Capitol Hill and does not bode well for near-term congressional approval of KORUS.

Trade Promotion Authority (TPA)—Legislation to renew TPA also faces dismal prospects, according to congressional staff. TPA enables the president to present a negotiated trade agreement to Congress for a simple up or down vote without amendments. Without this authority, any trade agreement the administration concludes could be torn apart by Congress.

In view of the murky outlook for the Doha Round of World Trade Organization (WTO) negotiations, Chairmen

*USTR-designate Ron Kirk said that
KORUS represents an important
economic opportunity for both nations*

Baucus and Rangel evidently do not see the need to embark on what undoubtedly will be contentious and time-consuming consideration of a TPA renewal bill.

House Republicans active on trade policy strongly disagree. They argue that the United States cannot jumpstart the Doha process or credibly lead other regional or bilateral trade initiatives—such as the promising Transpacific Strategic Economic Partnership (TPP)—without TPA. Members of the minority party have declared that they will fight hard for TPA renewal, but their fewer numbers will make this an uphill battle.

Trade Enforcement—Chairman Rangel and House Trade Subcommittee Chairman Sander Levin (D., Michigan) all but confirmed that the 111th Congress will pursue a tougher line on trade by their expeditious introduction of a bill aimed at strengthening the enforcement of trade laws. The “Trade Enforcement Act of 2009,” introduced on January 15—“after years of law enforcement under the Bush Administration”—would “eliminate foreign barriers to U.S. goods and services exports, combat counterfeiting and piracy, restore rights under U.S. trade remedy laws, and strengthen the U.S. ability to

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USAPC To Host 18th PECC General Meeting

The U.S. Asia Pacific Council will serve as the organizing body for the 18th General Meeting of the Pacific Economic Cooperation Council (PECC) hosted by the East-West Center.

It will be held on May 12-13, 2009 at the Renaissance Mayflower Hotel, 1127 Connecticut Avenue, N.W., Washington, D.C. Delegates from PECC's 22 member committees from East and Southeast Asia, Australia, New Zealand, North America, and the Pacific Latin American countries are expected to participate.

Theme—The theme of the conference is “Economic Crisis and Recovery: Regional and Global Roles for Asia-Pacific Economies.” Senior U.S. administration officials and prominent economic and political experts from the Asia-Pacific region will provide commentary and analysis on the following topics:

- The Asia-Pacific Economic Decline: How Deep, How Long?
- Political Implications of the Crisis in Regional Economies
- Declining Global Trade: Protectionist Risk and the Pacific Response
- Restoring Global Financial Stability: The Asia-Pacific's Role
- Economic Recovery and the Challenge for Post-Kyoto Cooperation
- Asia's Path to Recover: Toward a New Model for Growth?
- The Asia-Pacific Role in the New Global Economic Order

Speakers—At press time, confirmed speakers included: *Hon. Narongchai Akrasanee*, former Minister of Commerce and Senator of Thailand; *Dr. C. Fred Bergsten*, Director, Peterson Institute for International Economics; *Prof. Jagdish Bhagwati*, University Professor, Columbia University; *Mr. Chen Si Wei*, former Deputy Chairman of the National People's Congress of China; *Amb. Carla Hills*, former U.S. Trade Representative and Chairman, Hills & Company; *Mr. Takatoshi Kato*, Deputy Managing Director, International Monetary Fund (IMF); *Dr. Masahiro Kawai*, Dean, Asia Development Bank Institute; *Amb. Yoshiji Nogami*, former Deputy Foreign Minister of Japan; *Prof. Park Yung-Chul*, Professor of Economics, Korea University; *Dr. Eswar Prasad*, The Brookings Institution; *Dr. Hadi Soesastro*, Executive Director, Centre for Strategic and International Studies; *Mr. Jusuf Wanandi*, President, *The Jakarta Post*; *Dr. Yuen Pau Woo*, President, The Asia-Pacific Foundation of Canada; *Dr. Soogil Young*, President, National Strategy Institute, Seoul.

Registration—To register for the 18th PECC General Meeting and for updates about the agendas and speakers, please use —<http://www.pecc18.org> — which will be active on March 20, 2009.

Asia Pacific Economic Cooperation forum (APEC):

● **APEC Senior Officials Meeting I**—Designated senior officials from the 21 APEC member economies kicked off the APEC 2009 year by underscoring the importance of resisting protectionism. “There was a strong consensus that restrictions on trade and investment would only deepen and prolong the economic downturn,” said Ravi Menon, APEC 2009 Chair of the Senior Officials’ Meeting (SOM) said on February 16.

The Senior Officials further agreed to use the World Trade Organization (WTO) to monitor trade policy and inputs from the APEC Business Advisory Council (ABAC) as the basis for a report on compliance with the Leaders’ commitment at the 2008 APEC summit. The leaders pledged to refrain from raising new barriers to trade and investment or stimulating exports in a manner inconsistent with WTO rules.

Also important, the Senior Officials agreed on a three-pronged approach to accelerate regional economic integration: (1) by liberalizing trade and investment flows “at the border;” (2) by improving the business environment “behind the border;” and (3) by enhancing physical connectivity “across the border.”

Key Official Meetings: March–April 2009:

● **President Obama** joins other leaders of the G-20 nations at their second summit aimed primarily at addressing the global economic crisis, April 2, London, United Kingdom.

● **U.S. Treasury Secretary Timothy Geithner** likely will confer further with other finance ministers about the global economic crisis at the 2009 Spring Meetings of the World Bank and International Monetary Fund (IMF), April 25–26, Washington, D.C.



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address unfair and illegal trade practices,” the bill’s sponsors maintain.

Important for transpacific trade, the bill basically would limit the ability of the President to deny relief in cases of alleged surges in Chinese imports. It would also clarify that U.S. countervailing duty provisions may be applied to imports from nonmarket economies like China, among other reforms. Chairman Baucus is expected to introduce similar, but not identical legislation, shortly. ♦

Experts Examine U.S., Chinese Responses To The Global Recession

China is not solely to blame for current U.S. economic woes and saber-rattling by senior U.S. officials about China’s exchange rate policy is unlikely to have a positive or lasting impact on the U.S. trade deficit or imbalances in the Chinese economy, a group of experts told the U.S.-China Economic and Security Review Commission on February 17. By the same token, Beijing has a responsibility as a global economic power to work with the United States and other G-20 nations in affecting a world-wide recovery, they said.

Toward that end, these experts urged China to adopt a new consumer-led growth model and more flexible currency policy. Also important will be greater coordination of fiscal and monetary policies by the United States and China.

American Origins—The title of the hearing was “China’s Role in the Origins of and Response to the Global Recession.” Stephen S. Roach of Morgan Stanley Asia apparently sought to address the presumption behind the first half of the title. “There can be little doubt that this global crisis started in America,” he said. “The ever-deepening recession in the U.S. economy is very much an outgrowth of a massive post-bubble shakeout.”

Moreover, it would not be appropriate to place all of the blame for the U.S. recession on China, Roach cautioned. “Those blaming surplus-saving economies such as China for America’s unsustainable spending binge ought to be embarrassed,” he said.

Roach underscored that the excessive spending habits of Americans must be addressed at home through “a new and disciplined approach to monetary policy, tough regulatory oversight, and more responsible behavior on the part of consumers and businesses, alike.” He acknowledged that there were poor decisions made across the

U.S. economy, but advised that it would be incorrect for American policymakers to think that China is responsible for those poor decisions.

Rebalancing—U.S. actions alone will not turn the global economy around, the panel of experts emphasized. Roach said that China and other trade-surplus countries must accept that they can no longer export their way out of a slowdown. “Export-led growth must eventually give way to the internal demand of private consumers,” he said.

Michael Pettis of Peking University agreed but noted that even aggressive domestic stimulus by Beijing would not necessarily produce a new balance. “Given that the U.S. economy is about 3.3 times the size of China’s and consumption accounts for less than 50 percent of China’s income, Chinese consumption would have to increase by nearly 40 percent or roughly 19 percent of China’s GDP,” he said.

Instead, Pettis proposed, rebalancing might be better achieved in a coordinated fashion over a period of years. “U.S., European, Japanese, and Chinese policymakers must quickly come to a firm understanding of how significant global adjustment is . . . and design a multi-year plan of demand expansion in which China is given time to adjust its overcapacity,” he proposed.

Exchange Rates—Nearly all of the experts agreed that it could prove counterproductive for senior administration officials and Members of Congress to threaten China with some form of retaliation over alleged manipulation of its currency value. Such statements inject tensions in bilateral relations at a time when both sides need to cooperate in tackling the global recession, they said.

More worrisome, though, is the prospect of Chinese counter-retaliation. “Such retaliation could take the form of a China that simply doesn’t show up at an upcoming U.S. Treasury action [an action which ultimately] could cause the dollar to plunge and real long-term interest rates to rise,” Roach said.

Wing Thyee Woo of The Brookings Institution acknowledged that a large appreciation of China’s *renminbi* indeed would reduce the bilateral U.S.-China trade imbalance. However, it would not reduce the U.S. global trade deficits significantly because the United States invariably would switch its import supplier from China to other Asian and Latin American countries, Woo said.

Eswar Prasad of The Brookings Institution argued that it is more important for China to have an independent monetary policy oriented to domestic objectives such as low inflation and stable growth. “Flexibility of the currency is an essential prerequisite for this rather than an objective in itself [because] the Chinese central bank needs room to raise or lower interest rates” without worrying about targeting a particular exchange rate, Prasad said.

The complete transcript of the February 17 hearings is available at - <http://www.uscc.gov> ♦



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