

AmCham-China is fortunate to have many knowledgeable and experienced China veterans in our membership, and I'd like to occasionally share this column with some of our former chairs. This gives our membership the opportunity to hear a diverse range of perspectives on issues we face in the business community.

Following a recent message from Jim McGregor, this month, we feature former chairman Tim Stratford (2001-2002). Tim has a long, distinguished and diverse career in both the public and private sectors in both China and the United States. Most recently,

he left his role as Assistant US Trade Representative to return to private practice in a law firm in Beijing. Tim's five years in the heart of US-China trade relations, together with his rich China tenure and private sector experience give him a unique perspective on the Sino-US relationship and its potential and pitfalls.

I trust you will find Tim's insights provocative and useful as you think about how it applies to your company and its objectives in China.

— John D. Watkins, Jr.
AmCham-China Chairman

Beyond the Headlines

Focusing on underlying dynamics in U.S.-China relations

By *Tim Stratford*

Moving back and forth between the United States and China and between government service and the private sector can help to stretch and expand your perspective. When I worked in Washington as an Assistant United States Trade Representative, I had frequent, detailed and candid discussions about U.S.-China economic relations with other U.S. officials, as well as regular meetings with U.S.-based representatives of companies and industry associations. Since my move back to Beijing two months ago, I've met with Chinese and U.S. company representatives based here, and also had lengthy discussions with Chinese officials who formerly were my counterparts in government-to-government negotiations. What has struck me most powerfully from these discussions is that Americans and Chinese both believe healthy bilateral economic relations are critically important and are willing to work hard to maintain them, but they continue to hold very different views about who is to blame for the frictions that frequently arise.

Many of us closely follow current events and the public statements of officials from both countries to try to discern whether the bilateral relationship is improving or deteriorating. We might have been disheartened last March to see headlines such as: "Newly Powerful China Defies Western Nations with Remarks, Policies" (*Washington Post*), or "House Members Urge Action Against China" (*Wall Street Journal*). But then, in May, we might have been encouraged by new headlines, such as: "Outbreak of Goodwill in the Middle Kingdom" (*Sydney Morning Herald*) and "Huntsman Looks for Rebound in U.S.-China Relations" (*Salt Lake Herald Tribune*). Diplomats and other officials from both countries deserve a lot of credit for efforts they made to keep the relationship on track. But after witnessing such a notable mood shift in just two months we might well ask, "Where is the U.S.-China relationship headed on a more long term basis?"

When I was in government I used to put forward the theory, only half-jokingly, that there is a secret flagpole in the *Zhongnanhai* leadership compound with a sign on it that says: "U.S.-China Relations." According to my theory, a Party official goes to the flagpole each morning and hoists either a smiley-face flag or a frowny-face flag, and Chinese government officials walking by the flagpole on their way to work are thus instructed on how they should treat American officials that day. Whether or not such a flagpole actually exists, my colleagues at the U.S. Embassy could always tell me which flag was flying when I arrived in town for my next round of negotiations. Of course, such variations in Chinese attitudes reflected their view of how they were being treated at different times by the United States.

In fact, flags and headlines only provide snapshots of the moment. They don't shed much light on the underlying dynamics that both sides need to manage well in order to keep the relationship on track. In my view, there are four *underlying* causes of trade frictions between our countries:

(1) Chinese macroeconomic policies (including currency, fiscal, financial and price policies) that lead to unbalanced, resource-in-

tensive, export-oriented growth, as well as U.S. macroeconomic policies (including policies related to our federal budget deficit and low national savings rate) that drive our large trade deficit with the rest of the world and affect the value of the dollar;

- (2) Chinese policies supporting nationalistic and state-led economic development, as well as U.S. policies that treat state-owned enterprises and products from non-market economy countries less favorably in certain contexts than other enterprises and products;
- (3) Institutional weaknesses related to China's current level of economic development that impede China's enforcement of intellectual property rights and labor, environmental, and food and product safety standards, as well as U.S. regulations and enforcement mechanisms that sometimes block market access for Chinese products that are legitimate and safe; and
- (4) Weaknesses in accountability, transparency and the rule of law related to China's form of governance, as well as excesses and swings in U.S. attitudes towards China that are products of our own sometimes messy political system.

Given the huge impact our two economies have on one another, it is clear that *both* countries need to think carefully about the changes that each may need to make to keep the bilateral economic relationship on a healthy and sustainable path. Unfortunately, our ability to arrive at consensus views and to address underlying concerns through official dialogues is impeded by limitations on the amount of time that senior officials can devote to bilateral discussions on such complex topics, and by nagging doubts that each country harbors about the goodwill and true intentions of the other country.

Most Americans would be surprised to learn that according to a recent public opinion poll, China's citizens tend to see Russia and even North Korea as more reliable "friends of China" than the United States. And last month, a scholar at a prestigious Chinese think tank asked me earnestly if it's true that the U.S. government engineered the collapse of the Greek economy in order to undermine the value of the Euro and shore up the relative prestige of the United States. What does this tell us about Chinese perceptions of the United States, even among the policy elite?

In my view, it is the Chinese side that has been most reluctant to undertake candid and probing discussions on a number of the most difficult issues, though to be fair, it is also the Chinese side that has made the most concrete accommodations to the other side during our economic discussions over the past few years. Given what's at stake, I'm convinced that senior leaders in both countries are genuinely committed to building a "positive, cooperative and comprehensive relationship in the 21st century." But to achieve this, we will need to make greater progress in addressing the underlying causes of our bilateral trade frictions, including most importantly the lack of trust that exists between us.

Timothy P. Stratford is a partner at Covington & Burling LLP and served as AmCham-China chairman from 2000-2001.