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# US-China economic tiff simmers

By Alan Beattie in Washington

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As China's vice-president is greeted at the White House on Tuesday, the relationship between Washington and Beijing on economic issues is for the moment a manageable tiff rather than all-out conflict.

The politics of globalisation are always tricky in an election year in the US and the escalation of rhetoric on unfair trade practices from China got off to a strong start last month in Barack Obama's bellicose State of the Union speech. The president promised an aggressive campaign to force Beijing to change its ways on currency manipulation, intellectual property rights and state subsidies to exporters. His combative tone has if anything been exceeded by leading Republican presidential candidates, including Mitt Romney, whose big-business background is more normally associated with a co-operative rather than confrontational approach to trade.

Yet events are conspiring to raise further the frequently elevated ratio of bark to bite in US trade politics. Trade experts say that Washington often finds itself short of key allies to help it put pressure on China – a limitation of which Beijing is increasingly aware.

“China dislikes being isolated internationally, but increasingly distinguishes between unilateral actions that are likely to go nowhere and initiatives that could end in concerted pressure,” says Eswar Prasad, a former senior IMF official at the Brookings Institution who works with several emerging market governments. Mr Prasad said, for example, that the perennial rumblings on Capitol Hill to punish China for undervaluing its currency are losing their power to create alarm.

Gathering strength and falling unemployment in the US economy, together with a slackening last year of the capital inflows into China, have weakened the argument that Chinese intervention against the renminbi is stealing American jobs. And the US administration has been losing confidence in its ability to organise the G20 grouping of leading economies into a brigade to take on Beijing's currency policy.

It is making somewhat more headway on trade. Washington, cheered by securing a World Trade Organisation ruling against China's use of export restrictions on raw materials, continues to look for WTO cases to bring. But its rhetorical position was undermined by a ruling in its federal courts in December that the US was wrong to apply two kinds of punitive tariff on Chinese imports simultaneously – a judgment that Beijing seized on with glee. The ruling can be fixed by Congress simply passing a law. But with Washington having lost a WTO case on a similar issue, America's legislature overriding its judges will hand China more material for its argument that the US commitment to the rule of law is governed by expediency.

Moreover, the US's ability to encircle China with co-ordinated international litigation has likely been weakened. While the European Union was a co-complainant in the raw materials case, its desire to have Beijing help out in resolving the eurozone debt crisis has diminished the appetite in Brussels for confronting Beijing. Washington's attempt to assert its economic dominance in Asia-Pacific by pushing ahead with the Trans-Pacific Partnership, a trade deal involving nine countries, has been bolstered by interest in joining from Japan, Mexico and Canada. But such a broad agreement, even if it can overcome stiff domestic opposition from Japan, is likely to take years.

Some optimistic souls argue that talk of a dysfunctional and disintegrating US-China relationship is overdone.

Walter Spak, head of the international trade group at the law firm White & Case in Washington, which often acts for Chinese companies in disputes in the US. "If you look back in history at the rise of countries such as Japan as trading partners, this is the pattern it always follows," he says. "There is increasing trade, then an increase in trade frictions, then often an increase in trade litigation, and then the relationship settles down. This is the normal way the game is played".

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