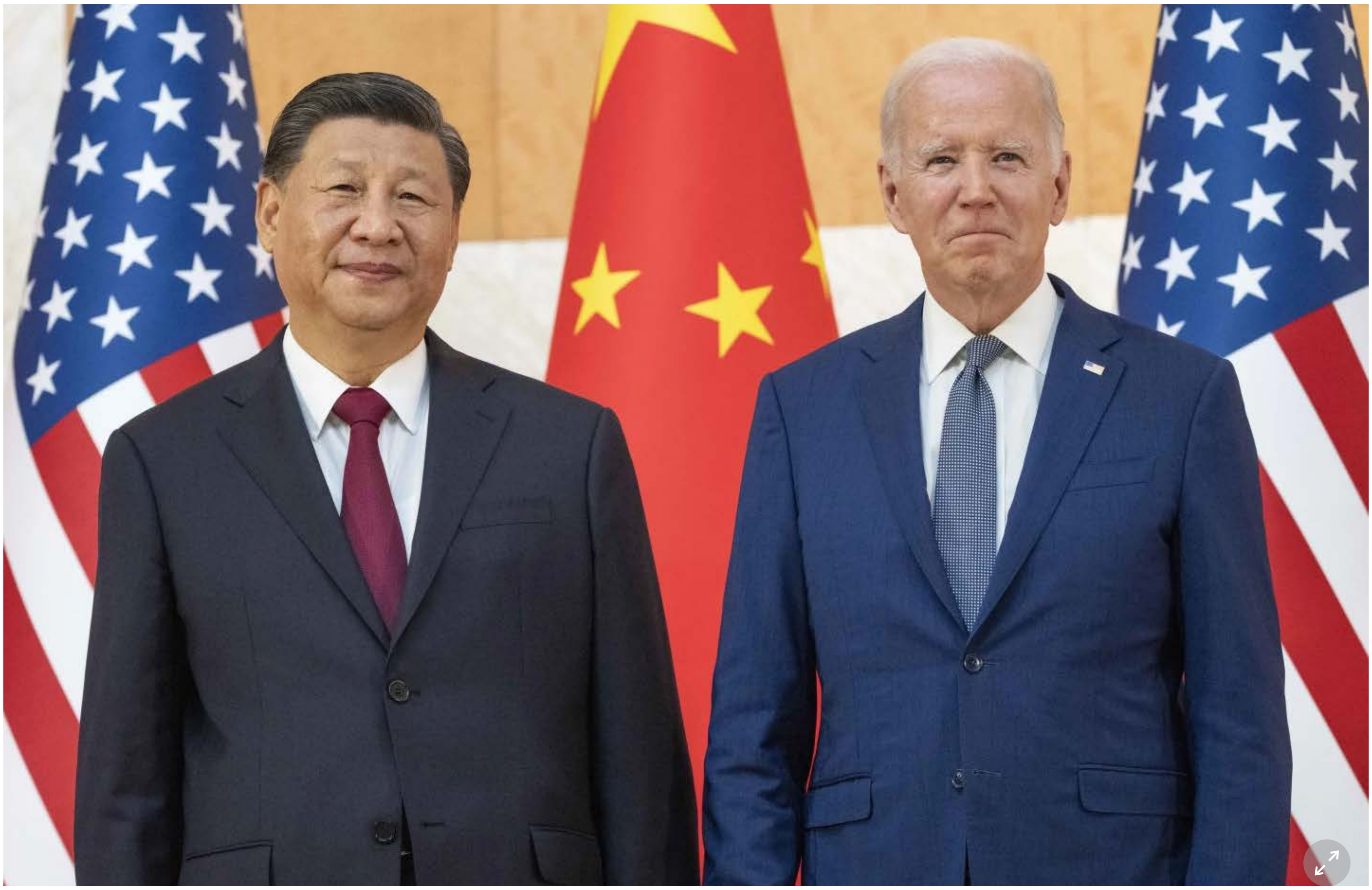
BUSINESS

A fragile global economy is at stake as US and China seek to cool tensions at APEC summit



BY PAUL WISEMAN
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WASHINGTON (AP) — The United States and China are the two global economic heavyweights. Combined, they produce more than 40% of the world's goods and services.

So when Washington and Beijing do economic battle, as they have for five years running, the rest of the world suffers, too. And when they hold a rare high-level summit, as Presidents Joe Biden and Xi Jinping will this week, it can have global consequences.

The world's economy could surely benefit from a U.S.-China détente. Since 2020, it has suffered one crisis after another — the COVID-19 pandemic, soaring inflation, surging interest rates, violent conflicts in Ukraine and now Gaza. The global economy is expected to grow a lackluster 3% this year and 2.9% in 2024, according to the International Monetary Fund.

"Having the world's two largest economies at loggerheads at such a fraught moment," said Eswar Prasad, senior professor of trade policy at Cornell University, "exacerbates the negative impact of various geopolitical shocks that have hit the world economy."

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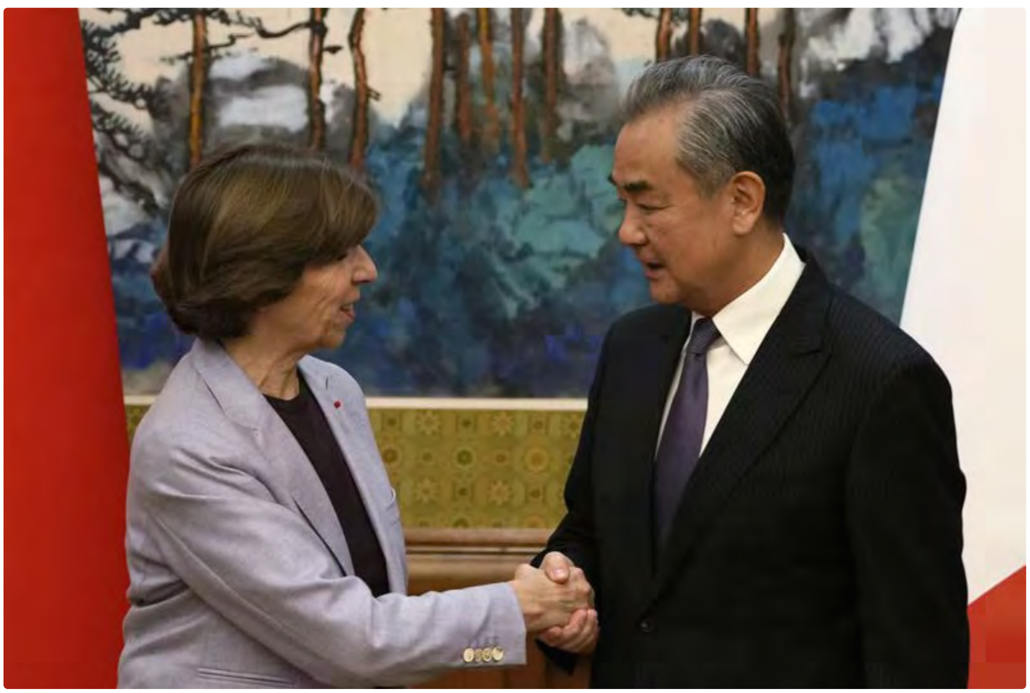

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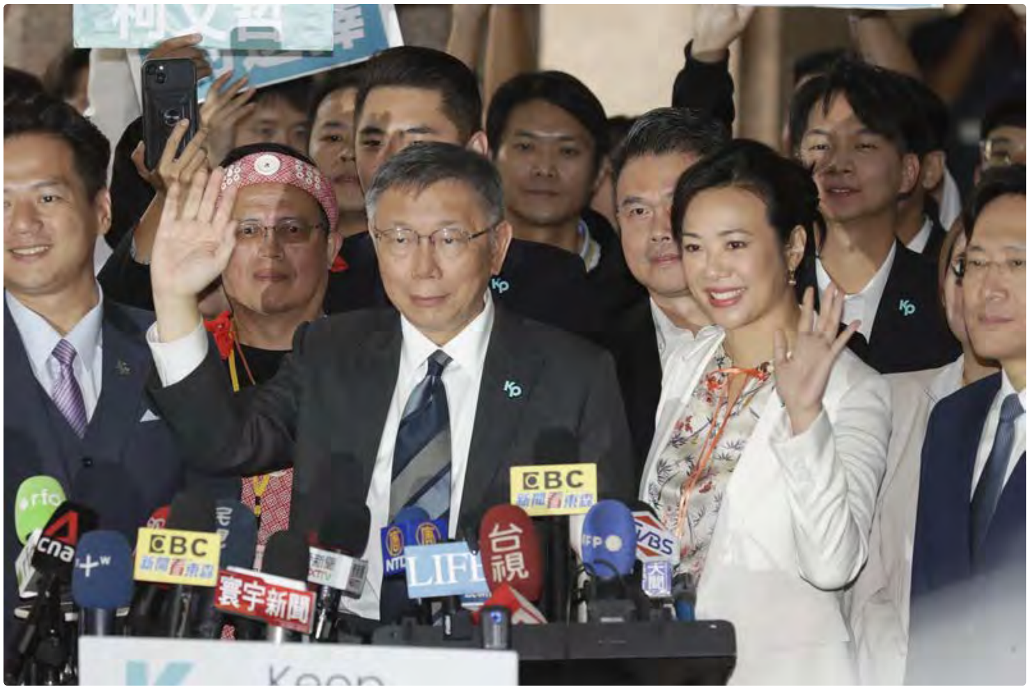

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Hopes have risen that Washington and Beijing can at least cool some of their economic tensions at the Asia-Pacific Economic Cooperation summit, which starts Sunday in San Francisco. The meeting will bring together 21 Pacific Rim countries, which collectively represent 40% of the world's people and nearly half of global trade.

The marquee event will be the Biden-Xi meeting Wednesday on the sidelines of the summit, the first time the two leaders will have spoken in a year, during which time frictions between the two nations have worsened. The White House has sought to tamp down expectations, saying to expect no breakthroughs.

At the same time, Prasad suggested that the threshold for declaring a successful outcome is relatively low. "Preventing any further deterioration in the bilateral economic relationship," he said, "would already be a victory for both sides.''

The U.S.-China economic relationship had been deteriorating for years before it erupted in 2018, at the instigation of President Donald Trump, into an all-out trade war. The Trump administration charged that China had violated the commitments it made, in joining the World Trade Organization in 2001, to open its vast market to U.S. and other foreign companies that wanted to sell their goods and services there.

In 2018, the Trump administration began imposing tariffs on Chinese imports to punish Beijing for its actions in trying to supplant U.S. technological supremacy. Many experts agreed with the administration that Beijing had engaged in cyberespionage and had improperly demanded that foreign companies turn over trade secrets as the price of gaining access to the Chinese market. Beijing punched back against Trump's sanctions with its own retaliatory tariffs, making U.S. goods more expensive for Chinese buyers.

Sen. Mark Warner, chairman of the Senate Intelligence Committee, said the U.S. must keep pressuring on China over the theft of intellectual property and enlist the support of allies in the region. "National security now is not simply who's got the most tanks and guns and ships and planes. It's who's going to win the battle for artificial intelligence, quantum computing, advanced telecommunications, 5G and beyond," Warner, D-Va., said on "Fox News Sunday."

When Biden took office in 2021, he kept much of Trump's confrontational trade policy, including the China tariffs. The U.S. tax rate on Chinese imports now exceeds 19%, versus 3% at the start of 2018, before Trump imposed his tariffs. Likewise, Chinese import taxes on U.S. goods are up to 21%, from 8% before the trade war began, according to calculations by Chad Bown of the Peterson Institute for International Economics.

One of the tenets of Biden's economic policy has been to reduce America's economic reliance on Chinese factories, which came under strain when COVID-19 disrupted global supply chains, and to solidify partnerships with other Asian nations. As part of that policy, the Biden administration last year forged the Indo-Pacific Economic Framework for Prosperity with 14 countries.

In some ways, U.S.-China trade tensions are even higher under Biden than they were under Trump. Beijing is seething over the Biden administration's decision to impose — and then broaden — export controls that are designed to prevent China from acquiring advanced computer chips and the equipment to produce them. In August, Beijing countered with its own trade curbs: It began requiring that Chinese exporters of gallium and germanium, metals used in computer chips and solar cells, obtain government licenses to send those metals overseas.

Beijing has also taken aggressive actions against foreign companies in China. Orchestrating what appears to be a counterespionage campaign, its authorities this year raided the Chinese offices of the U.S. consulting firms Capvision and the Mintz Group, questioned Shanghai employees of the Bain & Co. consultancy and announced a security review of the chipmaker Micron.

Some analysts speak of a "decoupling'' of the world's two biggest economies after decades in which they relied deeply on each other for trade. Indeed, imports of Chinese goods to the United States were down 24% through September compared with the same period of 2022.

The rift between Beijing and Washington has forced many other countries into a delicate predicament: deciding which side they're on when they actually want to do business with both countries.

The IMF says such economic "fragmentation'' is damaging to the world. The 190-country lending agency estimates that higher trade barriers will subtract $7.4 trillion from global economic output after the world has adjusted to the higher trade barriers.

And those barriers are rising. Last year, the IMF said, countries imposed nearly 3,000 new restrictions on trade, up from fewer than 1,000 in 2019. The agency foresees international trade growing just 0.9% this year and 3.5% in 2024 — down sharply from the 2000-2019 annual average of 4.9%.

The Biden administration insists it isn't trying to undermine China's economy. On Friday, Treasury Secretary Janet Yellen met with her Chinese counterpart, Vice Premier He Lifeng, in San Francisco and sought to set the stage for Biden-Xi summit.

"Our mutual desire — both China and the United States — is to create a level playing field and ongoing, meaningful and mutually beneficial economic relations," Yellen said.

Xi has reason to try to restore economic cooperation with the United States. The Chinese economy is under heavy strain. Its real estate market has collapsed, youth unemployment is rampant and consumer spirits are low. The raids on foreign businesses have spooked international companies and investors.

"With serious headwinds facing the Chinese economy and many U.S. firms packing up their bags and leaving China, Xi needs to convince investors that China is still a profitable place to conduct business,'' said Wendy Cutler, vice president of the Asia Society Institute and a former U.S. trade negotiator. "This will not be an easy sell.''

Complicating matters is that the tensions between Washington and Beijing go well beyond economics. Under Xi, the Chinese Communist Party has punished dissent in Hong Kong and the autonomous Muslim region of Xinjiang. His government made aggressive territorial demands in Asia, engaging in deadly border clashes with India and bullying the Philippines and other neighbors in parts of the South China Sea it claims as its own. It has increasingly threatened Taiwan, which it considers a renegade Chinese province.

U.S.-China tensions could intensify next year with presidential elections in Taiwan and the United States, where criticism of Beijing is among the few areas that unite Democrats and Republicans.

Xi's policies appear to be costing China in the battle for world opinion. In a recent survey of people in 24 countries, the Pew Research Center reported that the United States was viewed more favorably than China in all but two (Kenya and Nigeria) nations.

Could China change course?

Speaking at the Center for Strategic and International Studies think tank in Washington, Rep. Raja Krishnamoorthi, an Illinois Democrat who serves on a House committee that monitors China, noted optimistically that Xi has reversed himself before — notably in declaring a sudden end to the draconian zero-COVID policies that crippled China's economy last year.

"We have to give that possibility a chance, even at the same time that we hedge and protect our interests,'' Krishnamoorthi said. "That's what I'm hoping we also see come out of this meeting.''