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# Five Debate-Worthy Facts About China

by SCOTT NEUMAN

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Workers scramble on a scaffold at a construction site in Hefei, central China's Anhui province, last month. China has approved a massive infrastructure package worth more than $158 billion, state media said in September, as the government seeks to boost the flagging economy.

*STR/AFP/Getty Images*

If the last presidential debate was any indication, you'll be hearing a lot about China in tonight's third and final face-off between President Obama and former Massachusetts Gov. Mitt Romney.

Last week's debate was ostensibly about domestic issues, but that didn't stop China from being mentioned numerous times. Tonight's debate, focused on foreign policy, is sure to see relations with Beijing get a lot of airplay.

In preparation for the event, here's a list of five things you should know about China, covering U.S. concerns over economic and strategic relations with the Asian superpower.

**1. Should China be labeled a "currency manipulator"?**

In last week's presidential debate, Romney made it clear that he would crack down on China, promising to label it a "currency manipulator" at the World Trade Organization on "Day 1" of his presidency. In the past, China has intervened in foreign-exchange markets to keep its currency low compared to the U.S. dollar. That makes U.S. imports more expensive and China's own exports to the U.S. cheaper, widening an already yawning trade gap with the United States.

Romney wants to keep China from manipulating its currency, allowing the value of the yuan to rise. But market forces related to the global recession have, for the most part, already accomplished that, says Eswar Prasad, a senior fellow at the Brookings Institution.

"The circumstances have changed, but the political rhetoric in the U.S. has not caught up," he says.

China's interventions in the foreign-currency market circa 2005 were significant, but that has largely come to a halt. The yuan has appreciated steadily against the dollar in recent years.

"If you look at the past year, countries like Japan and Switzerland have been intervening much more heavily in foreign-exchange markets than China has," Prasad says. "So, calling China alone a currency manipulator at this stage is just not economically tenable."

Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics, agrees that "there was a very good case for the [U.S.] to take action against China five years ago, but not now."

Lardy credits pressure from the Bush administration that prompted China to de-peg its currency from the dollar in 2005 and to instead allow a "managed float."

Prasad says labeling China as a currency manipulator is "a nonstarter on economic grounds."

**2. Are we narrowing the trade gap with China?**

The short answer is no. As the global economy has slowed, China's surplus has fallen against many of its trading partners. But vis-a-vis the United States, it has continued to widen.

Last year, the U.S. imported $282 billion more in goods and services than it exported to China, according to the Office of the United States Trade Representative.

The trade deficit with China has proved so stubborn for a couple of reasons, Lardy say.

The first is that the U.S., and the government in particular, is still spending more than it's saving. As the global economy has declined, U.S. consumers have continued to buy Chinese-made goods and the U.S. government has continued selling U.S. Treasury Securities to China to finance the deficit, Lardy says.

The second reason is about how the data is crunched, Lardy and Prasad agree. They note many of the electronic items imported from China are produced largely from parts made elsewhere in Asia but are counted as 100 percent Chinese exports.

"They get assembled in China, get a 'Made in China' label stuck to them and get shipped to the U.S.," Prasad says.

Prasad praises President Obama for taking trade disputes with China to the WTO. His latest victory, on Thursday, was over Chinese tariffs on U.S. steel exports.

**3. What about those jobs being "shipped to China"?**

When Obama said in the second presidential debate that "there are some jobs that are not going to come back" from China, he was right, says Prasad from Brookings.

Still, the draw of cheap manufacturing labor is so strong that China's relatively cheap labor isn't always cheap enough.

"China itself is already starting to lose some of those low-wage jobs to lower-wage competitors, such as Vietnam and Bangladesh," he says.

Obama has talked about eliminating tax incentives that encourage U.S. businesses to "ship jobs overseas," but Lardy of the Peterson Institute is skeptical: "I don't see a lot of taxes that specifically incentivize outsourcing, it's mostly about the cost of labor."

**4. What challenge does China's strategic ambition pose for the U.S.?**

Chris Johnson, head of the China Program at the Center for Strategic and International Studies, says it's important to understand how Beijing views its role in the world.

"Quite clearly, its aim is to be the dominant power in the region," Johnson says. "But not necessarily a regional hegemon" — in other words, it is not necessarily trying to push the United States out of the region.

In short, he says, when other countries in the region make their calculations, Beijing "wants China's interests, and not those of the U.S., to be foremost in their thinking."

At the same time, he says, it's important not to overestimate China's ambitions. Unlike the U.S., he says, China has no desire to be the kind of global player that has an aircraft carrier in every ocean.

But Dean Cheng, a research fellow at the Heritage Foundation's Asia Studies Center, says even though China's reach is limited, "those regional aspirations and assertive regional policies affect U.S. allies."

"Do I expect a Chinese carrier group to be operating off the coast of Long Beach anytime in the next three years? No," Cheng says. "They are not a threat to the continental United States, but we have an alliance relationship with Japan and the Philippines. When Tokyo and Manila get nervous, bad things start to happen."

**5. Should we be worried about China's push to modernize and expand its military capabilities?**

Some 30 years ago, China embarked on a major overhaul of the People's Liberation Army (which includes naval forces) with the intent of modernizing its equipment and capabilities.

When it launched the modernization effort, says Dennis Blasko, an Asia analyst with the China Security Affairs Group, it made sure not to repeat the mistakes made by the Soviet Union, which plowed enormous resources into its military even as the rest of the Russian economy was falling apart.

In China "military modernization is subordinate to, but coordinated with, national economic development," says Blasko, author of *The Chinese Army Today: Tradition and Transformation for the 21st Century*. "Nothing that they are going to do on the military side is going to undercut the greater goal of national economic development."

Sure, there's that new aircraft carrier, China's first. But carrier flight operations take years or decades to perfect and China has just begun. Meanwhile, its new stealth jets won't be fielded until at least 2018, Blasko says.

"Except for some missile capabilities, when you compare our two forces ... there is a huge technology gap between the two forces. Not only the equipment, but the personnel, the doctrine, the logistics to support that equipment," he says.

Even so, the new aircraft carrier could look pretty intimidating to China's neighbors in Asia, even if there aren't any aircraft on the deck, says Johnson of CSIS.

"There's a tremendous demonstration effect that comes into play if they can get this thing seaworthy and float it down around some of these trouble spots," Johnson says. "That still poses a challenge to the U.S."