



US-China tensions rise amid financial chaos: experts

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WASHINGTON (AFP) - Tensions between the United States and China are set to increase during current financial turmoil but any trade war can adversely impact the two key drivers of global growth and the rest of the world, experts warn.

Trade frictions will erupt as the United States enters deeper into recession and China's economic growth shortfall worsens, the experts said.

US Treasury Secretary Timothy Geithner has already accused China of manipulating its currency to gain trade advantage while "Buy America" provisions have slipped into Washington's nearly 800-billion-dollar economic stimulus package.

The currency charge was met with a strong response in Beijing while the Buy America move drew Chinese allegations of trade protectionism.

"As the US unemployment rate now mounts in an ever-deepening recession, the politics of trade frictions may well gather greater support," Stephen Roach, chairman of Morgan Stanley Asia, said at a Washington forum Tuesday on China and the current global economic downturn.

"If these two nations end up at odds with one another, they will both suffer -- with dire consequences for the rest of a crisis-torn global economy," he said. "The stakes are enormous. There is no margin for error."

More than 40 pieces of anti-China trade legislation were introduced in the US Congress in recent years amid a ballooning trade deficit with China but none of the bills have been adopted.

"That may change," Roach warned as both countries grapple with the worst crisis in decades.

Tensions between the two economies "are likely to intensify at this time of worldwide economic distress," predicted Eswar Prasad, a former head of the China division in the International Monetary Fund.

But any confrontational approach by both sides "will almost certainly be counter-productive" and "this would poison the US-China relationship in a manner that could have deleterious long-term consequences on many fronts," he said.

But Prasad said paradoxically, the current crisis could also result in greater cooperation between the two economies.

He said China needed export growth in order to maintain job growth and preserve social stability and, while chalking up trade surpluses, had little alternative to buying US Treasury bills with the reserves it accumulates as it manages its exchange rate.

The United States, meanwhile, needs willing buyers for the Treasuries issued to finance its budget deficit, which is certain to increase due to bailout of troubled enterprises and fiscal stimulus operations, he said.

"There is a great deal of commonality of economic interests between the two countries and it is these shared

interests that should be the basis for a mutually beneficial economic relationship," Prasad said.

Robert Cassidy, a former US trade envoy on China affairs, said the current crisis presented "unprecedented opportunities" for Beijing to amend its currency policy and lift barriers within its own economy.

"In particular, the current crisis presents an opportunity for China to play a global economic leadership role by restructuring its development programs in ways that will generate greater growth of its domestic economy as well as the global economy," he said.

Cassidy wanted China to accelerate its currency rate of appreciation, saying it should stop using an "undervalued" yuan to make exports more competitive.

"If China is unprepared to make those steps, then the United States and other countries should consider initiating, in a progressive manner, stronger actions against China's beggar-thy-neighbor policies," he said.

Critics argue that any serious US retaliation on China's currency policy could see China's unloading its massive US financial assets.

"That's hardly a trivial consideration for a United States that needs about three billion dollars of capital inflows each business day to fund its current account deficit," Roach said.

"If China fails to provide its share of America's external funding, the dollar could plunge and real long term interest rates could rise. A dollar crisis is the very last thing a US in recession needs."

Latest US Treasury data show China remains the top holder of US Treasury bills, with 696.2 billion dollars of such securities in December.

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