American Enterprise Institute for Public Policy Research

China in Asia Seminar Series

National Defense University— INSS

China in Asia Seminar Series
Seminar 5: "China and the New Economic Geography of Asia"
July 21, 2005

CORE GROUP SUMMARY

Commenting on Mr. Rosen's public presentation, a China specialist remarked that the evolution of China's trade relationship with Asia seems to be "a story of revealed comparative advantage." But he wondered if there is trouble ahead for Asia – for instance, in electronics. Malaysia and Singapore have invested time, energy, and resources trying (successfully) to get into this industry. Will they be "steamrollered," and if so, will they go quietly?

Mr. Rosen replied that he also sees "tremendous competitive challenges" ahead for Asia, but that there are also opportunities. In his view Asians are looking for those opportunities rather than dwelling on their worries.

Another participant raised the subject of investment. A recent paper by an Australian scholar made a strong case that contrary to widespread belief, China has not been taking investment away from Southeast Asia. The countries that have investment-friendly policies continue to get investment. Indonesia has problems for reasons of its own. There are evolving production networks, and components are moving around, but for Asians to take full advantage of these opportunities they will have to deal with things like corruption.

Mr. Rosen basically agreed. China is competitive not because it has 1.3 billion people but because it has put good policies in place. Even the legal arena is improving. The contrast with Latin America, including Mexico, is striking.

An economist returned to the first question about Asia's future. He stated that Asian countries are already participating in production networks and that they have made money doing so. He added that they will have to continue moving up the technology ladder.

Mr. Rosen agreed. He pointed out that some production is being moved out of China – to Vietnam, for example -- because wages in coastal areas are too high!

A trade specialist that since China did not experience the Enlightenment, the notion of individual rights is weak. The legal system is indeed evolving, and China's enthusiasm for capitalism is greater than America's! But China's projected demand for energy is alarming.

Mr. Rosen agreed that the legal system is improving but demurred slightly on the state of capitalism in China. Although entering into the Chinese market is easy, exiting is often difficult. There are also problems when it comes to dealing with overcapacity, among other things.

An economist raised the question of ideology. Mr. Rosen argued that some policy-makers in China make policy based on considerations of wealth, power, and/or ideology, just as they do elsewhere. But there are also a lot of idealistic people in Chinese policy-making circles who genuinely want to reduce poverty.

A political economist asked about internal barriers within China that impede the flow of goods. Mr. Rosen replied that the situation in China has improved a lot. Trade barriers have come down. The highway system has expanded dramatically. Long haul trucking in distribution is in its infancy. Road tolls are still used instead of fuel taxes at the pump, which discourages long haul distribution. .

A trade economist asked if the Chinese are interested in building infrastructure in Latin America. Mr. Rosen replied that they are, whenever and wherever doing so meets their needs. A China specialist who has been looking into Chinese aid of this kind said that sometimes local officials take their cut off the top. China often brings its own labor to these projects. The whole question of China's expanding presence, he said, has "many moving parts."

Mr. Rosen then described the case of two Braziliam coal mines in China, making the point that each case is different and must be analyzed separately. This led to a brief discussion of China's energy policy at home. There are significant economic and health costs associated with burning dirty coal. Mr. Rosen commented that China has had no real energy policy. The policy office is undermanned. So there is a vacuum when it comes to thinking comprehensively about health, the environment, geopolitics, and other aspects of energy. Chinese officials pay lip service to environmental protection but do not pursue it seriously at this stage. (When this changes, China will lose some of its competitive advantage.) What is more encouraging are demonstration projects funded by the World Bank and others. In many cases factories have been moved out of cities.

A China expert returned to the list of China's weaknesses that concluded Mr. Rosen's public presentation. He commented that focusing exclusively on trade has the effect of overemphasizing China's strengths. After all, some unknown portion of China's new wealth comes from outside of China. He agreed with Mr. Rosen that the discussion in Washington tends to focus exclusively on China's strengths. But he also questioned the idea that Asia can compete with China even though Asian governments are trying to make the best of China's rise. What he really wants to see is more attention to the question of what the United States should do.

Mr. Rosen restated his point that the Americans tend to emphasize what they believe is "unfair" or otherwise inappropriate in China rather than applauding what the Chinese have done. They have essentially been "carrying out our ideology," if not our practice. If the trade numbers exaggerate the story, then the negative features attributed to China should be scaled down as well. China's labor is not going to be competitive indefinitely.

Returning to electronics, the China specialist who had raised the subject at the outset restated his concern for other Asian countries. Mr. Rosen responded that there is a flow-through pattern.

China imports components and passes on many semi-finished goods to other markets. Moreover, Chinese consumption is growing at 13 percent a year. A China specialist made the assertion that one can't find very many Chinese dollars invested anywhere else outside China. Mr. Rosen noted that CNOOC was trying to spend $18.5 billion such dollars to acquire Unocal, but was prevented by the US. When asked where the money for investment in China's domestic electronics industry comes from, Mr. Rosen said that in his view it doesn't matter much. Some of it comes from government subsidies and some from foreigners, but it is mostly Chinese.