



Is China's PNTR a joke?

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Introduction

Just a few years ago, the US-China trade deficit was hailed as the hero to fight inflation. When the trade deficit mushrooms to close to U\$200+B level, some smart people in the US Senate start to review the situation. They believe China's privileged status of PNTR (preferred nation trade relationship) granted by Congress in 2000 should be repealed. The result is to increase the import tax on Chinese merchandize. Perhaps these smart people are not that smart.

Is China a developing country?

Many developing countries receive the PNTR status from US. US provides the helping hand to encourage the industrial development though promoting trade with US. The intention is noble. The consequence is friendship. US usually sees developing countries as a small trading partners. This tradition continues until China grows to the fourth largest economy in the world. Is China still a developing country when it bought the PC arm of IBM and largest TV maker of the world?

Developing country is not defined by the total a country owns. It is defined by the per capita income. While China has citizens intensively wealthy, the per capita income is still very low. The life of the people at west, northwest and southwest were pretty much unchanged since China practice the Open Door policy in the 1970's. American has been claiming the high humanity standard and preaching the human right. The repeal of China's PNTR is just forcing the poverty of these poor Chinese citizen continue to suffer longer until the wealth is spread out.

At the eastern costal area, many cities are prosperous comparable to many cities in US. The per capita income is still significantly lower than many US counter part. Millionaire is still a very honorable goal of many Chinese. The chance to achieve it is less than the American counter part because of the industry still in infant state.

Who developed the trade deficit?

At the early 1970's when Nixon recognized China, there were no trade balance, at least in theory. At the end of 1970's the import to US was pretty much limited to the Chinese grocery, art works and some garment. The quality of Chinese merchandize was a concern. There were no agents to promote it.

All these changed when China has been identified as the source of low cost labor after Indonesia, Thailand, Philippine and India. Only this time China's labor cost is far much lower than the others. Buyer such as Wal-Mart jumped on the band wagon to place massive order. At the beginning the order growth was low due to the quality. Things changed very quickly. Before long, it is only China can fill the quality, the cost and the

volume requirement. The snowball effect amplified to the current astonishing \$200+B trade deficit in 2005 from 2004's U\$162B when the merchandise spectrum covers daily goods to mid-tech electronic. The Lenovo deal wedged into the high tech area. The newly plasma factory in China will quickly take over the plasma market so does Chery's automobile.

American has been preaching it high humanity, fair and friendly standard. Could its help and trust misplaced? Trade is like clapping hands. You need two not just one. Many years, American's inflation (at least for the middle class) has been under control due to the imports from China.

American practice strong protectionism is well documented. For example the Canadian softwood lumber was jeopardized by the unfair heavy duty levied by American even after WTO ruled unfair.

It is known that American is the biggest arm export country. To maintain the world piece, American can stop selling arm. Why it has never been brought up before the Congress or Senate.

What is the American's agenda?

During the press conference that announced the status should be rescinded in retaliation for China's unfair trade practices. Lets take a look one by one.

Currency Manipulation The pegging of RMB with US\$ in 1994 was promoted by the big brother to ensure RMB uses US\$ as reserve and provide guaranteed value when American receive payment in RMB. The value of RMB was considered to be prone to the down side so the pegging was required. Once it is pegged, the manipulation is virtually impossible.

Piracy Piracy is not unique in China. It happens around the world including the North America. Due to the 1.2B population in China, the lost of revenue is humongous. China has committed to combat piracy when it joint WTO. Would repeal the PNTR fix the problem? The answer is obvious. DVD is protected by region. Microsoft created more and more sophisticated scheme to prevent pirated copy to be used. I just wonder why the American does not go after those piracy software site located on the Internet which they could do something.

Violation of Labor Law I just wonder who's labor law is this one. Would it mean Wal-Mart is promoting the violation of the labor law too?

Barrier to enter China market I would assume preventing China to enter the American energy market by buying Unical is not a barrier. The most recent investment by the American consortium to Band of China and Construction Bank of China are at 20% level. Would American accept these level of investment from China?

Forward Looking

Should the Chinese goods become more expensive because it loses the PNTR, the winner, American, would be the victim of this war. After the PNTR is annulled, the price will go up. American will have to pay more which inflation is gone higher. The T-bill interest will have follow suite. The American economy will experience the first wave of impact before the China.

What is the joke?

When you failed to compete with your trading partner by the situation you create to keep inflation in check it is a joke.

Resources

[1] US senators act to repeal China PNTR status, China Daily, 2006.02.10

http://www.chinadaily.com.cn/english/doc/2006-02/10/content_518997.htm

[2] Big trade deficit still sore point, CNN,

http://www.cnn.com/2005/WORLD/asiapcf/11/15/china.us.trade/?section=cnn_latest