

Hunter's warnings about China stir dissent

by Finlay Lewis

WASHINGTON - Republican presidential candidate Duncan Hunter's insistent warnings about China's threatening military buildup have stamped him as the Paul Revere of the fast-developing 2008 campaign.

China is picking America's pocket and using its ill-gotten gains to acquire ships, planes and missiles in a challenge to U.S. national interests, Hunter says. By cheating at trade, the 14-term congressman adds, China has also been able to pirate many American industries and high-paying manufacturing jobs.

But some experts say that the Alpine, Calif., Republican's relentless focus on Beijing's trade tactics is overwrought and ignores important economic benefits to the United States, including hundreds of billions of dollars worth of Chinese investments that help the United States finance its deficit.

Campaigning for the Republican presidential nomination over the past three months, Hunter has espoused a view on China that is far more confrontational and alarmist than the one taken by the Bush administration.

For example, Hunter has accused China of illegal currency manipulation that, he says, is seriously damaging the U.S. economy. Federal Reserve Chairman Ben Bernanke, a Bush appointee, is guilty of "appeasement" for failing to challenge China's currency policy, Hunter says. Nicholas Lardy, an expert on the Chinese economy at the Peter G. Peterson Institute for International Economics, is one of several economists who say that Hunter has it backward.

In fact, Lardy and others argue, China's success last year at banking a surplus of over \$230 billion in its two-way trade in goods with the United States has enabled the Chinese to bankroll the U.S. Treasury to the tune of hundreds of billions of dollars to finance the budget deficit. As a side effect, China's loans have kept both U.S. taxes and interest rates lower than they might otherwise have been, some economists argue.

"We are financing a government deficit and a savings shortfall by borrowing from abroad, including to a significant degree from the Chinese," said Lardy. "So it is probably more accurate to say that China's trade surplus is financing our military expenditures than it is their military expenditures."

Barry Bosworth of the Brookings Institution also disputes Hunter's assertion that China is financing its own military buildup out of its trade surplus.

"They are accumulating foreign currencies which they hold in dollars. But they don't spend [the surplus,]" Bosworth argued. "If they used it to finance their defense buildup, they would have spent it. Then they wouldn't have a trade surplus any more." Lardy cites statistics indicating that China only spends about \$2 billion a year on military imports, mainly from Russia. Some military experts are dubious about Hunter's alarm over the nature of the emerging Chinese military threat. They argue Beijing's strategy, at least for the time being, is aimed at raising the stakes for the United States in any future decision to intervene in an armed conflict over Taiwan, the breakaway island state that China is intent on recovering.

"Whether or not this would be a broader threat on the shape of where it could turn into a new cold war, man, we are nowhere near that yet," said Robert Work, vice president for strategic studies at the Center for Strategic and Budgetary Assessments. Hunter's fans, including many with impressive economic credentials, counter that China is not simply being a good neighbor when it recycles its trade surplus by purchasing U.S. government debt. Instead, they say, it is part of a strategy of devaluing its own currency to make American products more expensive in global markets compared with Chinese goods.

Part of this strategy involves maintaining a fixed exchange rate - or "peg" - between the Chinese renminbi and the U.S. dollar. "They can't maintain a fixed peg - unless they recycle dollars back into the U.S. That's why they do that," said Peter Navarro, a business professor at University of California Irvine and author of "The Coming China Wars."

"They do fund our budget deficit - by doing so, they are helping essentially to increase our military budget - (But) I think an armed and dangerous Chinese military capable of projecting power throughout the world is far more dangerous than the U.S. military in terms of destabilization." Navarro argues that the real significance of China's unfair trade policies lies in their success in fueling the country's overall economic growth, which provides the wherewithal to finance a significant increase in military spending.

Some studies say that China over the last decade has boosted its defense budget from 1 percent of its gross domestic product to 1.5 percent. The comparable figure for the United States is 4 percent. "The economic weapon - is translating into a military weapon because the faster China grows economically, the more resources it has to devote to the military budget," Navarro said. "The key point is that it is devoting a disproportionate share of its new growth to fueling its military expansion."

Dan Ikenson, associate director of the Center for Trade Policy Studies, at the libertarian CATO Institute, argued that Hunter's attacks on China overlook that nation's advances in becoming a member of the global trading system. Ikenson added that its recent entry into the World Trade Organization offers a forum for reconciling complaints about its objectionable trading practices. Arguing that the United States has benefited along with China from the trading relationship, Ikenson said, "We need to keep our eye on them, and like Ronald Reagan said, 'Trust but verify.' I think that is what we need to do with China and not treat them like an enemy - just keep an eye on what they're doing and prosper along with them."

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