

America can no longer go it alone with China

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Washington's sale of arms to Taiwan has produced threats of retaliation from Beijing, but US-China ties have survived worse disputes. America's economic policy towards China poses a far bigger problem. The present US approach is to pound its chest in bilateral meetings - similar to earlier strategies under presidents Bill Clinton and George W. Bush. This is anachronistic, given how different the world looks today, and it is not working.

During the Clinton years, US military power was at its height and the country was experiencing its strongest ever business expansion. America's information technology was changing the world and its chief executives were regarded as global leaders. China, on the other hand, was just emerging from backwardness. It was logical for America's China policy to be heavily bilateral. The US had the leverage to press China to open markets and deregulate banks. Centre stage was the creation of a Joint Committee on Commerce and Trade and a similar forum for financial matters.

As tsar of China policy in the Bush administration, Hank Paulson, Treasury secretary, established in 2006 the Strategic Economic Dialogue between the two countries. This forum consolidated trade and finance and included a broader array of topics and ministers than the two it replaced, but remained strictly bilateral, based on a premise that Uncle Sam could still compel China to modify its policies.

Mr Obama's chief innovation seems to have been to rename the central forum, calling it the Strategic and Economic Dialogue. Now both the Treasury secretary and the secretary of state chair the meetings, with their Chinese counterparts. Yet America still assumes it has the clout to persuade China to change its policies.

The problem with continuing this bilateralism at its habitual intensity is that the US is a pale shadow of what it was a decade ago: its fiscal situation is out of control, its banking system discredited, its military stretched by two protracted wars. Whatever philosophical high ground it has had over the last two decades has been lost. At the same time, China's ascent has been mind-boggling: its growth in gross domestic product, its lifting of hundreds of millions out of poverty, its expanding role in global trade, its growing diplomatic ties not just in Asia but in Latin America and Africa. Most important, perhaps, China has amassed \$2,400bn (€1,750bn, £1,530bn) in reserves and become the critical creditor to the US.

Bilateral ties and initiatives - such as co-operation on energy, which the Obama administration instituted - are essential. But it has become self-defeating for the US to place so much weight on them. America has decreasing leverage, and China knows it. There is little use in Washington alone exhorting Beijing to revalue the renminbi or sign a climate change treaty or embrace internet freedom. The only policy that could move China from its deeply entrenched positions would be to weave a web of multilateral arrangements into which China could fit, and by which China would be bound. China would, of course, need to have a substantial say in the shape of such arrangements.

The best existing example is the World Trade Organisation, where China is obliged to play by the rules that a number of leading countries have subscribed to, and which has an orderly process of adjudication. While it still has leadership clout, the centrepiece of US efforts ought to be marshalling multilateral support for other such arrangements. It should press for a new, strengthened global monetary system based on multiple currencies, with enforceable rules for currency management to which both it and China would subscribe. Washington should redouble efforts to work with a number of countries on an enforceable climate change treaty. It should garner other nations' support for global arrangements regarding the operation of the internet.

The US cannot alone dictate the terms, but with skilful diplomacy that encourages Europe, Japan and selected big emerging markets to buy into legally binding multilateral rules, it has a better chance of getting China to sign up, too. This would require a new way of thinking about China and a time horizon measured not in years but decades. There is little to lose by trying.

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