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# BLOGS & STORIES

## We're Handling China All Wrong

by *Jeffrey E. Garten*

February 17, 2010 | 10:34pm

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**Obama's meeting with the Dalai Lama is a sideshow. Jeffrey E. Garten on the fundamental flaw in U.S. policy toward Beijing—and the way to fix it now.**

President Obama's meeting with the Dalai Lama Thursday will make China none too happy. Speculation will be rife in Washington and Beijing about the administration's motives: Is the White House being unnecessarily callous toward Chinese sensitivities at a time when we are desperate for the Middle Kingdom to continue to buy U.S. Treasury obligations? Are we trying to express annoyance at China's reluctance to support U.N. sanctions on Iran? Is Obama playing to his soft-hearted liberal base or trying to suck up to certain bash-the-Chinese conservatives? The answer: None of the above. The administration is merely delivering on a longstanding pledge of Obama, and following in the footsteps of former presidents. Moreover, the White House can take some comfort in the fact that the U.S. and China have weathered such storms on many occasions before.



AP Photo

The flaw in U.S. policy is that Washington is trying to influence China as if it alone had the power to do so.

Much bigger problems are brewing, however. When it comes to China, many American strategies are failing badly and a new one is called for.

China's currency, the yuan, is seriously overvalued, perhaps by some 30 to 40 percent—making its exports much cheaper than they should be. Nothing the U.S. has done has convinced China to make the necessary adjustments. The administration is pushing China to open its markets to American goods and services, but China has been imposing new regulatory requirements, and the momentum for imports and incoming foreign investment has been slowing. China's obstinance was a major cause of the recent breakdown of climate treaty talks in Copenhagen, a high priority of the Obama team. And the dispute between China and Google has opened up broader conflicts over freedom in cyberspace.

• [Isabel Hilton: Obama Stands Up to China](#)

No one should underestimate the difficulty of dealing with an ever-more-confident emerging superpower. But the flaw in U.S. policy is that Washington is trying to influence China as if it alone had the power to do so. The weight of American efforts rests on bilateral pressure,

including sending Cabinet secretaries—sometimes several at once—to do Uncle Sam's bidding. Administration officials are wont to admonish China publicly for not doing this or that, sometimes patronizingly explaining to China that making certain policy changes would be in its interest, as if China didn't have a view about its national interest. Then there is always Congress, threatening a rash of protectionist bills directed solely at China.

The centerpiece of the Obama's China strategy is what it calls the Strategic and Economic Dialogue, jointly chaired by Secretary of State Hillary Clinton and Treasury Secretary Tim Geithner, and their Chinese counterparts. The four

officials preside over semi-annual meetings on every topic under the sun. The concept is fine: a comprehensive dialogue between the world's two most important countries. But the concrete achievements on issues that really count are few.

Not long ago, Secretary Clinton demonstrated the futility of unilateral grandstanding when it comes to China when she gave a high-profile speech about the importance of Internet freedom—a worthy cause, to be sure—that was a thinly veiled diatribe against China. The impact of the speech dissipated quickly. Clinton inadvertently revealed how few instruments the U.S. had to back up its policy. More importantly, not one other government joined in to support the U.S. position. Compared to Teddy Roosevelt's advice to speak softly and carry a big stick, in this instance the U.S. was shouting while holding a toothpick.

The essential point is that the U.S. no longer has the leverage to go it alone with China. The "unipolar moment" that might have described America when the Berlin Wall fell down is long over. On the one hand, our national finances have deteriorated almost beyond imagination since 2000, when we were eyeing almost \$6 trillion in budget surpluses over the coming decade. Today there is no plausible scenario for America other than years of economic retrenchment under the weight of unprecedented deficits and debts. Equally important, on economic matters the U.S.-induced global credit crisis, with its egregious lapses of judgment and ethics on the part of Wall Street and Washington alike, has robbed us of all philosophical high ground when it comes to telling anyone else how to conduct economic policy.

On the other hand, China is in its third decade of economic growth averaging some 10 percent each year. Over that period it has transformed itself from being a poor backwater, lifting some 200 million people out of poverty, and becoming the world's second largest economy, the world's largest exporter, and the world's most important creditor. It is establishing world leadership in green-energy industries, clearly a critical sector for the future, and may well emerge as a major competitor with the U.S. in manufacturing automobiles and some aspects of aerospace. In other words, the trajectories of the U.S. and China are moving in dramatically different directions.

It doesn't take a genius to see that America needs more help in dealing with China. That's why we must shift from what is primarily a bilateral and at times unilateral, pound-the-chest approach to one involving more support from other key countries, many of whom are also having big problems with China, including the European Union and India. This enhanced multilateralism must be based on at least two premises that are hard to discern in U.S. policy today. The first is that China is not just bursting on the global stage, but rather is changing the world as it does so. Put another way, we can forget about trying to force China into conforming to Western rules and institutions without allowing the country a big voice in reshaping those arrangements to serve its own needs. Secondly, the U.S. and its partners are better off compromising with China on these arrangements so long as they have rules and enforcement mechanisms. The key goal must be to encourage China to obey laws and regulations that are agreed upon.

A good example is the World Trade Organization, which China entered in 2001. It has binding arbitration. Both the U.S. and China have submitted to its jurisdiction in trade disputes—on intellectual property related to movies, for example, where the U.S. won a key judgment last year and China ceased certain practices. The process may be slow, but works.

We could use similar institutional setups for currency management and for cyberspace. There was an attempt to rope China into a climate-change treaty in Copenhagen, admittedly, but in the end there was insufficient groundwork laid for the meeting, and Obama wound up trying to twist China's arm without the help of the E.U. We must keep trying.

Bottom line: Whatever fuss is made over the president's meeting with the Dalai Lama today is a sideshow, dwarfed by the need to reorient American policy on many more explosive strategic issues with China. That new multilateral orientation will take hard work over many years. But we are now playing a losing game and we have to change course.

*Jeffrey E. Garten is the Juan Trippe professor of international trade and finance at the Yale School of Management, and served in economic and foreign policy positions in the Nixon, Ford, Carter, and Clinton administrations.*

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