



Discordant Notes Between the United States and China

Daniel H. Rosen says American policymakers are increasingly unsure of China's reliability as a partner—or whether China will continue to liberalize its economy.

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Steve Weisman: President Hu of China is about to make an important state visit to the United States. This is Steve Weisman at the Peterson Institute for International Economics with Daniel H. Rosen, visiting fellow, who has been back and forth to China many times over the last year. Dan, thanks for joining me.

Daniel H. Rosen: My pleasure.

Steve Weisman: What's the general atmosphere now in terms of US-China relations as we approach this visit?

Daniel H. Rosen: I think what's most significant is that it's less moored, less anchored than it has been, for as long as I have been watching the relationship. As usual, we have a whole list of specific economic concerns that we're talking about. But there has always been a narrative in the US-China relationship, economically and otherwise, which has provided a logic for why we keep doing this and making these long flights even if we don't always get what we want in a given quarter of a given year. I think now people are going back and asking themselves, "What's the narrative? What's holding the relationship together?" It's actually kind of disconcerting to hear senior US officials asking, "What would our policy look like if we fundamentally couldn't trust one another? What would the backup plan be?"

Steve Weisman: That is disturbing. Do you think there's any chance of a visit between two people who don't know each other very well overcoming that?

Daniel H. Rosen: I'm a strong believer in the role of leadership, economically and otherwise, breaking through people's expectations and pushing a relationship forward, beyond what people thought was possible. Unfortunately, it's hard to do that without some foundation. And between China and the United States over the past year, the United States continues to grapple with domestic employment levels, domestic concerns about its competitiveness, to an extraordinary extent and does not seem to have gotten the kind of help, or support, or sense of common cause from our friends in China that would have been expected, given the efforts the Obama administration had made to accommodate Chinese concerns and the year prior to that.

Steve Weisman: What specifically are you referring to?

Daniel H. Rosen: Well, of course we are talking about the currency issue—

Steve Weisman: You mean not really aggressively pushing them or not acquiescing in the various legislative measures?

Daniel H. Rosen: Yes. The United States gave China a considerable period of time to find its own way forward on the exchange rate issue.

Steve Weisman: Starting in the Bush years.

Daniel H. Rosen: Of course, starting in the Bush years. I mean there really has been a considerable amount of patience, considering the duration of time in which we've had a trade and balance between us, which nobody considers to be sustainable out into the future. Even after June this year, when the Chinese side announced that it was going to allow the exchange rate to move more, the best you can say is that in real effective terms, there has been some movement in the renminbi against the dollar. But that has nothing to do with any Chinese action. The US dollar, by virtue of weakening, has moved its rate against the renminbi. The renminbi, by virtue of Chinese inflation picking up, has in effective terms moved up somewhat against the US dollar. But neither of those factors can be credited to the Chinese government taking an effort to actively manage the fundamentals, in this case the exchange rate, in a direction compatible with building a functional US-China sense of collaboration.

There really is a sense in [Washington] DC that whatever we do to move forward, we really can't count on this being arrived at collaboratively. That we need a plan that will get the job done, even if Beijing is preoccupied with its own domestic concerns, which you know, let's face it, are considerable. It would just be nice if we found a mutual way to deal with our respective problems by collaborating more together.

Steve Weisman: You and some other colleagues have talked to counterparts and officials in the Chinese leadership or policy community. Do you get the feeling that they "get it"—that they understand the level of American concern about this issue?

Daniel H. Rosen: I think at least as many Chinese "get it" as there are Americans who get China, which is a little disconcerting as well. I think to be fair, to the extent that the Chinese side does not really get it, it's in no small part because there's not clarity to get. It's not like there is a clear-cut US decisive position on where we are. Ultimately in the medium term and beyond, whether China is good news or bad news for the United States has very little to do with what the Chinese choose to do. It has very little to do with the exchange rate or any other aspect of Chinese policy. What it most has to do with is our own competitiveness here at home, our own reform—whether we address our own imbalances, budgetary and trade, with the reforms necessary to make ourselves more competitive. And I'm told the Chinese will often say back to us when we talk about their rebalancing, "What's the United States doing to rebalance?"

What have you guys really done? What have you done on climate change? What have you done on domestic expenditure reform? Do you have a plan? Do you have a five-year plan of your own for managing your fiscal outlook? And the truth is we don't—yet. At such point that we do, then I think the conversation between President Hu and President Obama or their successors will be a much more focused and productive one than what's possible today.

Steve Weisman: What about some of the ancillary issues that certainly contribute to the atmosphere, in particular the last couple of months? North Korea has been very unsettling for American policymakers. In spite of clear provocative actions by North Korea, the Chinese still do not want to confront their close ally.

Daniel H. Rosen: I think that the North Korea issue matters and also we could add the concerns over China's posture toward the South China Sea.

For instance, its stance in the context of collisions between ostensibly civilian Chinese fishing vessels and Japanese naval vessels and South Korean vessels as well. All these things concern us from an economic perspective for the following reason: because despite the considerable economic tensions that we've had over recent years, until recently there was a counter argument that at least we're working together on the really critical geostrategic issues that matter at the end of the day, such as managing the Korean Peninsula. That argument has, I think, lost a lot of its credibility.

Steve Weisman: Within the US government?

Daniel H. Rosen: Within high levels of policymaking in the United States government where the folks who until recently would make the case, "I know you guys doing dollars and cents stuff aren't happy, but let me tell you the adults upstairs are managing nuclear bombs. And we feel pretty good about how we're collaborating to manage the world." It's harder for them to make that case.

The geostrategic argument for taking more time to sort out our economic concerns, as we've written about here quite a lot, the American business communities' presence in the center of the debate in Washington saying, "We've got to take our time and be patient with China because things are moving in the right direction." Over intellectual property and indigenous innovation, they [those counseling patience] have lost some of their ability to hold the middle as well. [That is true] even with the liberal economic mainstream, including some of our colleagues here. Our ability to say that China is clearly moving toward marketization and the state is not moving back into a larger role in the economy—frankly, it's harder for us to say that after 2009–10 than it was prior to those years, I think.

Now optimistically, what we're seeing [in China] is a cyclical uptick of state involvement, just as we had in the United States. And we'll move back into the long standing Chinese convergence with the liberal Western approach to organizing an economy in short order. I certainly hope so. But—

Steve Weisman: But you have your doubts.

Daniel H. Rosen: Well, trust but verify. I think we'll probably want to leave it at that.

Steve Weisman: There was an episode during Defense Secretary Gates' visit of the Chinese testing a stealth plane and some of the civilian leadership not knowing about the test. This raises an issue apparently among policymakers at the Pentagon of how independent the civilian government leadership is from the Communist Party and the military. Obviously it's a big country. It's full of factions. What's your sense of how much infighting there is, over the course of direction, for China in the future?

Daniel H. Rosen: Yes, it's a great question. On the one hand, there's often less internal disagreement than foreigners sometimes think. For instance it's a commonly held belief that there's widespread discontent with the Communist Party's management of the economy. Whereas in my experience moving around China, the vast bulk of people are reasonably satisfied with the extraordinary economic performance the country's turned in, in recent years. On the other hand, we also know that, for example, in economic policy making there are extraordinary schisms and debates taking place right now in Beijing, between different camps that have a different solution to what China's next 10 years looks like. Whether market forces should

be allowed to fulfill to a greater extent or whether that would be a mistake, and in fact the government should take an even more prominent role in the economy.

So between the civilian leadership and the military authority in China, the issue that became so acute in the context of Secretary Gates' visit—first of all I don't think we'll ever know for sure. I wouldn't be surprised if there are issues, which have to be handled every day in terms of the relationship of one big power base, the military complex in China, and the civilian party leadership. But by and large, there hasn't been too much daylight, I have to say, between those two sides. And I really wouldn't count on that being a drag on China's ability to move purposefully, forcefully, and intentionally in the world over the years to come.

Steve Weisman: Dan Rosen, thanks and come back more often.

Daniel H. Rosen: I will. Thanks, Steve.

