



New Turbulence in US-China Ties: Part I

Nicholas R. Lardy explains why the Chinese press reacted negatively to Secretary of State Clinton's recent trip but says it is too early to tell whether economic relations will be affected. Tomorrow: China in the US presidential campaign.

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Steve Weisman: China is back in the news in the presidential campaign and also because of Secretary of State Clinton's recent trip to China. This is Steve Weisman with Nicholas Lardy at the Peterson Institute for International Economics. We are going to do this in two parts. First, Secretary Clinton's trip produced a lot of reports that it didn't go very well. What's your assessment?

Nicholas Lardy: I think that you have to look at the response on two levels. Certainly in the press, she was very heavily criticized. On the other hand some of the top leaders, particularly the Foreign Minister, her counterpart, treated her very firmly but gently and certainly gave the impression of wanting to maintain a strong, productive, bilateral relationship.

Steve Weisman: What was the focus of the criticism in the Chinese press?

Nicholas Lardy: The focus of criticism in the Chinese press reflects the kind of nationalism that has come to be increasingly important in China. The charge, of course, is that the United States, and particularly the Secretary herself, is injecting the United States into a series of territorial disputes that China has had for many, many years with countries like Vietnam, the Philippines, and others in Southeast Asia. And the Chinese, needless to say, are not happy about what they see as outside intervention in an attempt to reach some kind of a settlement.

Steve Weisman: Has the United States' position on this changed or become more muscular recently or is this a long-standing reiteration of the U.S. view?

Nicholas Lardy: I think the change in policy has been mostly in tone and style rather than in substance. I think the bottom line position that's most important is that the United States says it will support an outcome that is mutually agreed to by all the disputants to the settlement and so we try not to stake sides. That is kind of the long term position. And the Chinese, I think, don't really have any problem with that. The tone and the style that has changed, particularly under Secretary Clinton, has been her suggestion that China negotiate collectively with the various countries involved in the dispute. The Chinese, obviously to maximize their leverage, have always insisted on dealing with each of the countries bilaterally. And so with her supporting a multilateral negotiation, they feel that the United States is injecting itself into the process.

It's complicated. I think our basic policy has not changed significantly, but the way it is perceived by the Chinese I think is a significant change.

Steve Weisman: Has the administration handled this well?

Nicholas Lardy: I think you could argue that it might have been more productive to just stick to the principle and let all the parties work it out rather than allowing yourself to be seen as intervening in the process itself.

Steve Weisman: Do you think the U.S. in this case was pushed by its allies in the region?

Nicholas Lardy: I don't think so. At one level, the Southeast Asian countries directly involved in the dispute are very much dependent on the support from the United States. On the other hand, they're very reluctant to stimulate Chinese criticism by appearing to support the United States becoming more involved. So it's a very, very delicate balance.

Steve Weisman: How has this spat affected the ongoing economic dialogue?

Nicholas Lardy: It remains to be seen. There will be another round of the so-called Strategic and Economic Dialogue, which has a very large economic component. The dates haven't been announced. I think that even though the Chinese are, shall we say, somewhat miffed with Secretary Clinton's approach or what they see as a slightly change in tone and style at least if not in substance, it is not likely to have a big affect on the economic relationship. China is dealing with a lot of key economic problems. It is very worried about how Europe is going to develop. It's monitoring very closely the pace of the recovery in the United States. Their export sector has been slowed down quite dramatically as a result of developments in the global economy. So I think the last thing they want to do at this point is to rock the boat further and potentially make an unfavorable economic situation even less favorable.

Steve Weisman: Thank you, Nick. We're going to stop there, and in the second part of this interview, ask about China as it has come up in the campaigns of both President Obama and Governor Romney.

