New Turbulence in US-China Ties: Part II

Nicholas R. Lardy says that criticism of China by the Obama and Romney campaigns are unlikely to lead to concrete actions against China in the economic sphere, no matter who wins.

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Steve Weisman: China has figured in the big speeches at the Democratic and Republican conventions an interesting tangential way. Nicholas Lardy, senior fellow at the Peterson Institute for International Economics is here with me, Steve Weisman. Nick, first of all, how do you evaluate what both Romney and Obama were saying in their speeches?

Nicholas Lardy: Their statements are at a pretty high level of generality, but I think they're feeding into the reality here, which is that we have had a very slow economic recovery. Unemployment is much higher than one might have expected two or three years into a recovery from a significant recession, and there are critics out there who feel that China is a significant part of the problem with its trade surplus. I think it's a little bit of a hard case to make because China's trade surplus globally has come down quite dramatically over the last two to three years.

At the peak of its surplus in 2007, we had full employment, we had very robust economic growth, and ironically, as its surplus has gotten much smaller on a global basis, our economic conditions have, shall we say, worsened pretty dramatically, which I think in a kind of at a big macro level suggests that it's pretty hard to draw a conclusion between what's happening in our domestic economy and the size of China's surplus. I think it's a factor; it should be taken into account, but it's not the main driver of our economic difficulties.

Steve Weisman: In listening to both speeches, I got the impression that they weren't making more than a gesture toward a golden oldie that's been around for many years, of criticizing China.

Nicholas Lardy: Criticism of China has always increased significantly in our presidential campaigns every four years, maybe a little bit more this time because of the economic circumstances that we're in. But again, there are no policy prescriptions really being put forth, so it's hard to know or anticipate how much different our policy towards China would be if Mr. Romney were elected, for example, as compared to the re-election of President Obama. I tend to think that the change might be significantly less than you would imagine based on some of the rhetoric.

Steve Weisman: The Republican rhetoric is supportive of legislation that's never gone anywhere in Congress, to punish China over currency issues.

Nicholas Lardy: Right, but Romney still thinks he can generate some support or gain some votes by talking about naming China a currency manipulator, even though the practical consequences of that are relatively modest.

Steve Weisman: How closely are the Chinese watching this flurry of statements in the American election and how concerned do you think they might be?

Nicholas Lardy: There's a very large component of the Foreign Ministry in China that follows everything that happens in the United States very closely; there's a big American-watching community in the academic, and think-tank worlds in China. I think it is being watched fairly closely, but the response at the official level so far has been quite muted. They are not—some very strong things may be said about China in the campaign, but they are not putting out counter-statements or trying to refute these charges on a day-in-and-day-out basis.

I think they've learned over the years that the rhetoric escalates in campaigns, but there frequently isn't a follow through. I think they're very much of the school, we are going to watch and see what you actually do; we're not going to be too concerned about what you say with respect to how China may or may not be treated, for example, in trade relations in the United States.

Steve Weisman: On that score, the Chinese can be contrasted with President Putin, who seemed to endorse President Obama for re-election this week.

Nicholas Lardy: No, the Chinese probably have their preferences on what they'd like to see in terms of the outcome of the US election, but they're certainly not articulating them.

Steve Weisman: Thanks, Nick.