

Obama faces test of ties with Beijing

[Print](#)

By Daniel Dombey in Washington

Published: March 15 2010 23:31 | Last updated: March 15 2010 23:31

Like a cowboy riding a bucking bronco, the Obama administration is trying to adjust to every twist, turn and jolt of its turbulent relationship with China.

So far this year the administration has sought to minimise the fallout from differences with China over \$6.4bn in arms sales to Taiwan, a meeting between Barack Obama, president, and the Dalai Lama, and a dispute between [Google and Beijing](#).

But all of these issues pale in comparison with the overriding economic priority of, as Washington sees it, righting the balance with China specifically and Asia generally. The goal sought by Mr Obama is for Asian economies to shift emphasis to domestic demand and away from producing cheap goods for US consumption, while the US in return increases savings rates.

It is precisely in this area where most political pressure on the administration is bearing down, as members of Congress, labour unions and Mr Obama's political base call for a tougher line against the allegedly undervalued renminbi. It is also here that China's self confidence, as one of the biggest buyers of US government debt, is greatest.

The drumbeat intensified on Monday, with the dispatch of a bipartisan letter signed by 130 members of Congress calling on the administration to brand China a currency manipulator that subsidises its industrial sector through exchange rates, and to threaten it with World Trade Organisation action.

Meanwhile, with unemployment at almost 10 per cent and Mr Obama and his Democratic party struggling in the polls, the administration itself has stepped up its rhetoric in recent weeks.

"If we just increased our exports to Asia by a percentage point, by a fraction, it would mean hundreds of thousands, maybe millions of jobs here in the US," the president said last month. "And it's easily doable."

But Mr Obama was also careful to phrase his call for international action to "address" currency rates in general, non-confrontational terms that did not single out Beijing. Top administration officials argue that hectoring by Washington could be counterproductive and make China reluctant to revalue for fear of seeming to give in to US pressure.

That argument fits in with the administration's general approach to Beijing, which stresses the importance of co-operation on other big issues such as combating climate change and backing United Nations sanctions on Iran.

"There is an appreciation in both Beijing and Washington that a stable, predictable, consistent, bilateral relationship between the two countries is important," said Kurt Campbell, assistant secretary of state for East Asia, in a recent Financial Times interview.

He added that a group of issues – including the economy, climate change, Iran and North Korea's nuclear programme – would "define the contours and the context of our relations" over the next year.

Mr Campbell added: "It is simply not going to be politically, fiscally or strategically sustainable to return to the status quo ante of substantial amounts of credit and cheap imports coming in from Asia: that overall pattern of economic action needs to change and change quite clearly."

However, the benign relationship sought by officials such as Mr Campbell and Timothy Geithner, treasury secretary, appears set to be tested by domestic opinion on both sides.

Eswar Prasad, an expert at the Brookings Institution and Cornell University, said: "There is a consensus building in the US that China's position on the currency is untenable and that China is throwing its weight around in a way that is unfriendly."

"But the perception in China is that the dynamic in the bilateral relationship has shifted completely to Beijing's advantage."

[Copyright](#) The Financial Times Limited 2010. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.