China Will Be Happy Geithner Isn't a Goldman Guy: William Pesek

Commentary by William Pesek

Dec. 10 (Bloomberg) -- "Why does Goldman Sachs run your government?"

After seven-plus years in **Asia**, I'm no longer startled by this question. It was posed to me yet again recently -- this time by Kuala Lumpur taxi driver Sumit Kotari.

"What's wrong with America is that it's run by investment bankers, mostly from the same bank," the 49-year-old Malaysian said. "How can Americans stand for it? Is **Barack Obama** from Goldman Sachs, too?"

No, I tell my driver. Yet I've stopped putting up an argument when faced with the common view that Washington is in Wall Street's pocket. The $700 billion bank bailout, on top of the Federal Reserve's charity, doesn't help the perception. Neither does the fact that its architect, **Henry Paulson**, is a Goldman Sachs Group Inc. alumnus.

It has been reported in Asia that **Neel Kashkari**, assistant Treasury secretary in charge of the Troubled Asset Relief Program, worked for the same New York-based investment bank. President-elect Obama's decision to seek advice from other former Goldman Sachs bigwigs, such as **Robert Rubin**, also grabbed attention.

Even the guy helping choose a replacement for **Timothy Geithner** at the Fed Bank of New York came from Goldman Sachs. It makes one breathe a sigh of relief that Geithner, who will be the next Treasury secretary, doesn't have Goldman Sachs on his resume.

Incestuous Ties

The point here isn't to pick on **Goldman** Sachs. Yet it is seen by many in Asia as the gold standard of investment banks. Its name also is a byword for the perception of incestuous ties between Wall Street and Washington.

Geithner isn't untainted, having run the Fed bank that is essentially Wall Street's connection to the U.S. capital. Many complain that Geithner did little to head off the current crisis and then played a role in letting **Lehman Brothers Holdings Inc**. fail, deepening the turmoil.

Where Asia is concerned, there are three reasons why a Geithner Treasury Department may be more of an asset than a liability. One, he knows Asia well. Two, the Treasury's role is about to change. Three, the U.S. is in a weak position and Geithner will come to the job knowing it.

China is a case in point. As Paulson's tenure winds down and Obama's team steps up, questions abound about the future of the talks Paulson started. Last week, **Zhu Guangyao**, an assistant Chinese finance minister, said the "Strategic Economic Dialogue" should continue.

Better Suited

The talks will survive, no question. The real issue is that Geithner may be better suited to oversee such discussions.

Geithner is less "of Wall Street" than Paulson, who spent 32 years as an investment banker before joining the **Treasury** in 2006. Many in Asia wonder if it's a conflict of interest for the firm, where Paulson served as chief executive officer, to benefit from U.S. bailouts. Geithner, meanwhile, has lived in China, India, Japan and Thailand and studied Mandarin and Japanese.

With Geithner's resume, he could just as easily get a top job at the State Department. That's a significant asset when economic relations with **China** -- and the rest of Asia -- will require diplomacy as well as deft policy making.

The Strategic Economic Dialogue was a recognition that the U.S. needs China's help as much as China needs the U.S.'s. Kudos to Paulson for getting that.

Obama's Universe

The framework still hasn't achieved anything approaching its promise. One reason Geithner can move things forward is his time with **Bill Clinton**'s administration. Clinton empowered the Treasury to take on tasks previously carried out by diplomats. Geithner will bring that view into Obama's universe.

The U.S. simply isn't in a position to demand this or that from China. Treasury officials no longer have the leverage they once did as Wall Street plunges and the U.S. needs Asia's money to stabilize its financial system.

This dialogue began when China was growing 10 percent and the Dow Jones Industrial Average was soaring. Geithner will take the reins as China struggles to bolster growth and the U.S. is desperate to keep the biggest holder of Treasuries from dumping dollars.

The China-U.S. relationship was aptly summed up last week by an e-mailed note from **Eswar Prasad** of the Brookings Institution in Washington. Its title: "Lame Duck Meets Hobbled Panda."

New Thinking

The U.S. even came in for a gentle rebuke last week when Paulson attended his fifth and final China powwow. In Beijing, Vice Premier **Wang Qishan** described the financial crisis as "the most pressing task that we are facing" and urged the U.S. to protect Chinese assets in that country.

China's economy is slowing fast amid recessions in the U.S., Europe and Japan. While a stronger yuan might help China boost domestic demand, it could devastate the all-important manufacturing industries. China won't go for it.

Geithner won't waste the amount of time President **George W. Bush**'s team did figuring that out. Geithner also will be working with **Lawrence Summers**, tapped by Obama to be White House economic director. Summers last year urged lawmakers to go easy on China's currency policies.

Obsessing over the yuan has gotten the U.S. nowhere. Perhaps some new thinking at the Treasury will.

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