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Business In The Beltway

Obama's Agenda For China

Brian Wingfield, 11.10.09, 8:00 PM ET

WASHINGTON -President Barack Obama heads to Asia Thursday for a week-long, four-country jaunt. On the agenda: stops in Japan, Singapore (for the Asia-Pacific Economic Cooperation summit), China and South Korea.

Despite all the airport hopping, the trip will largely be about China-U.S. relations, which have been tepid as of late. White House officials say the talks in China will focus on the global economic recovery, climate change, energy and regional security.

Don't forget tires, jobs and money. Two months ago, Washington and Beijing had a flare-up when the Obama administration slapped a 35% tariff on Chinese tire imports.

The U.S. paper industry has also cried foul on Beijing. China has responded to the treatment with its own tariffs on U.S. nylon imports. It's considering taking somewhat symbolic action on U.S. auto imports. (See ["The Trouble With China's Trade Retaliation"](#))

Many experts agree that the trade spat is more smoke than fire, but feathers on both sides of the Pacific have been ruffled.

"This relationship may have some rocky times ahead," says Tim Adams, a former undersecretary for international affairs in the State Department. Two factors in particular may exacerbate it: the 10.2% unemployment rate in the United States and Congress' 2010 elections, which may prompt some lawmakers to take a protectionist stance in order to save American manufacturing jobs.

President Obama wants to ensure that China and the rest of East Asia remains open to U.S. business for the sake of job creation. According to White House officials, the region is expected to grow by more than 7% in 2010, and consumption will be fueled largely by U.S. exports. "We see a lot of jobs being created through our engagement with Asia," says Michael Froman, the White House's deputy national security adviser for international economic affairs. The trick for U.S. officials, of course, is to make sure Asian growth boosts U.S. job creation, rather than detracting from it.

Currency issues are likely to be a major topic of discussion between the U.S. and China next week. Complaints that Beijing should allow the yuan to appreciate more against the dollar continue to be voiced by the U.S., Japan and Europe, and they have been joined recently by some developing countries, such as Brazil, which are concerned that China's management of its exchange rates gives it too much of an advantage in the export arena.

China has succeeded somewhat this year in deflecting criticism over the yuan by going on the offensive over the fiscal problems of the U.S., calling for discussion of alternatives to the dollar as the world's unofficial reserve currency. For China, which holds about \$2.3 trillion in foreign reserves, mainly in dollars--largely as a result of buying U.S. Treasuries to keep the yuan weak--the soundness of the dollar is a very big deal.

Earlier this year, Chinese officials signaled they would support the creation of an international reserve currency, in part because the dollar has plummeted in value due to loose monetary policy and the economic crisis. Some analysts have wondered whether the yuan could one day replace the dollar as a reserve currency.

"It would be a mistake to assume Beijing is ready to ditch the dollar anytime soon," says Melissa Murphy, a China expert at CSIS, and author of a recent report on the issue. With such vast dollar holdings and exports to the United States, she argues, Beijing has little interest in a large-scale depreciation of the dollar.

However, the country also holds more than \$800 billion in U.S. Treasury securities, and it doesn't want to see these assets devalued further. In Beijing, don't be surprised if Chinese officials tell their U.S. counterparts to ease up on the spending, which

weakens the dollar. A strong dollar--at least relative to the yuan--means China can continue its export growth.

Eswar Prasad, a scholar at the Brookings Institution, says in a recent paper that U.S.-China relations are "ripe for economic and geopolitical jockeying, with great potential for conflict even though both countries would stand to gain from a constructive relationship."