

7. U.S.-China Relations: Mostly Partners, Sometimes Rivals

U.S.-CHINA RELATIONS, and the respective national interests that underlie them, are generally harmonious. The usual harmony, however, is occasionally jarred by sharp dissonance. Currently, the dissonance arises from legislation pending in the U.S. Congress to pressure China to raise substantially the value of its putatively “misaligned” yuan relative to the U.S. dollar. The United States’ aim is to reduce China’s large current account surplus with the United States (nearly \$200 billion in 2006), which, it is contended, is appreciably affected by China’s deliberate policy of undervaluing the yuan.

The internal American politics behind this measure are complex if not obscure—for example, the legislation is sponsored by both the Democratic chairman and the ranking Republican member of the Senate’s Finance Committee but is opposed by other members of both parties. In any event, its economic logic is basically flawed.

The source of China’s global surplus and its smaller but still

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relatively large surplus with the United States lies in the excess of China's huge domestic savings rate (more than 35–40 percent of its approximately \$5 trillion GDP) above its high but lower domestic investment rate (about 35 percent of GDP). The American economy is characterized by a precisely opposite imbalance: an excess of gross domestic investment (about 14–16 percent of its approximately \$12 trillion GDP) over domestic savings (about 10–12 percent of GDP, entirely due to retained corporate earnings and depreciation allowances because household savings are close to zero and government dissaving is about 2–3 percent of GDP).

If and when these basically symbiotic imbalances become unsustainable, tinkering with the yuan/dollar exchange rate will have little relevance or influence. Quite different policy changes will be required if, for example, the U.S. savings rate is to be boosted by two or three points and China's savings rate is to be lowered by several points. Moreover, if these changes are to be accomplished without in the process triggering recession in the United States and inflation in China, the exchange rate will be the result, not the cause, of the necessary changes.

Beyond the symbiotic relationships between the two economies, the national interests of both countries are in close harmony. Both China and the United States have major interests in maintaining and enlarging a global trading system that is free and open and encouraging global markets that allow free capital flows in both directions, facilitating American investment in China and Chinese investment in the United States.

As the world's first- and second-largest importers of oil—U.S. daily imports are 10 million barrels; China's are half as large—the United States and China have convergent interests in increased and diversified sources of oil supply as well as moderate and relatively stable oil prices. Both countries also share a strong interest

in developing efficient alternatives to fossil fuels through expanded production of nuclear, solar, and biomass energy.

Energy represents a divergent as well as a convergent interest between China and the United States. The more hydrocarbon fuels each of them consumes, the more global oil prices will tend to rise to the detriment of other consumers. China's subsidies to household and state enterprise consumers of energy thus harm energy consumers in the United States. As major consumers in the same market, China and the United States are rivals as well as partners.

Convergence between Chinese and American national interests extends to major issues of international security as well. Both countries have vital interests in nonproliferation of nuclear and other weapons of mass destruction. North Korea's nuclear test in October 2006 concerned China no less than it concerned the United States. Moreover, China's influence has been crucial in inducing the DPRK to resume the Six-Party Talks and in forging a promising if slippery agreement for halting and then dismantling North Korea's nuclear programs.

Confronting nonproliferation in Iran, China's interests are less congruent with those of the United States. Iran is a major source of China's oil imports, as well as a growing market for China's exports. Those commercial interests, in combination with its perhaps not unrelated disposition to believe that Iran's progress toward weaponizing nuclear technology is far behind that of North Korea, incline China to be less cooperative with the United States in pressuring Iran to reverse its nuclear programs than in the case of North Korea.

The threat of Islamic terrorism and the compelling importance of combating it are of deep concern to China as they are to the United States. China's concern is heightened by the jihadist threat posed by the separatist Moslem Uigur minority in Xinjiang province—a concern closely aligned with that of the United States.

Convergent interests in counterterrorism impel both the United States and China to share intelligence, to track and interdict financial transactions that may support terrorism, and to cooperate in other ways, including China's informal assistance in the Proliferation Security Initiative launched by the United States in 2003.

To be sure, China and the United States see other security issues in a different light. They include China's military spending (increased by 18 percent in 2007) and its investment in advanced military technology, as evidenced by China's effective antisatellite missile test in 2006. These divergences also include China's dissatisfaction with U.S. preferential treatment of India's nuclear development and U.S. concern over China's harsh human rights policies within China, as well as China's declaratory policy of using military force against Taiwan if the "renegade province" were to declare its independence.

In the broad score of major international concerns of the United States and China, harmony predominates over dissonance. That there are, nevertheless, important entries on both sides of the score recalls an observation by F. Scott Fitzgerald about the criterion for a first-rate mind: "the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function." Whether the minds behind the respective policies of the United States and China will measure up to this exacting test is an open question.

POSTAUDIT

Written in mid 2007, the ensuing interval is too short for the piece to claim much prescience. Nevertheless, I would expect that the ledger described here will have considerable validity in the longer term, subject, of course, to the caveat expressed in the concluding sentence.