

THE EDITORS

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JANUARY 19, 2011 4:00 A.M.

China Inflation

According to the Pew Research Center, close to a majority of all Americans believe China is now the leading global economic power. Such estimations are obviously inflated, and they are helping build support for foolish populist measures aimed at Beijing's currency and trade practices.

No issue looms larger in U.S.-China relations than the artificially weak yuan. During his visit to Washington this week, Chinese president Hu Jintao has gotten an earful about his government's persistent currency devaluation. The outrage is understandable, but also misguided. For one thing, a stronger yuan would probably do very little to boost U.S. employment, given the massive disparities between American and Chinese exports, not to mention the enormous gap in labor costs. Writing in the *New York Times*, Harvard law professor Mark Wu [points out](#) that there is far less competition between American and Chinese exporters than many people seem to think. According to his analysis, fewer than 15 percent of "top export products" feature direct competition between U.S. and Chinese firms. "By and large," says Wu, "we are going after entirely different product markets; we market things like airplanes and pharmaceuticals while China sells electronics and textiles."

What about the much-ballyhooed U.S.-China trade deficit? Surely it would fall if the yuan were allowed to strengthen more rapidly? Not necessarily. As Cato Institute scholar Daniel Ikenson has [noted](#), the bilateral trade gap continued to grow between July 2005 and July 2008, even as the yuan appreciated by 21 percent against the dollar. Over that period, U.S. imports from the Asian giant jumped by nearly 39 percent. As for American exports to China, Wu observes that they increased *less* quickly between 2005 and 2008 than they did during the preceding three years, a time when the yuan "did not appreciate at all."

Beijing's mischievous trade behavior — subsidies, tariffs, dumping, copyright infringement — certainly warrants criticism, but the U.S. lost much credibility when it imposed sanctions on Chinese tires in 2009. Generally speaking, the Obama administration has displayed scant global leadership on free trade. Finalizing the landmark U.S.-Korea pact in early December was a step in the right direction, but the White House has shown zero passion for confronting and pressuring Democrats over the Colombia and Panama deals (which were signed in November 2006 and June 2007, respectively).

Beyond trade and currency spats, Obama and Hu will discuss the serial provocations of North Korea, a

country whose government depends on Chinese aid for its very survival. Beijing was apparently furious about Pyongyang's most recent atrocity (shelling Yeonpyeong Island and killing four South Koreans, including two civilians), but we see little evidence that the Chinese are preparing to withdraw their economic assistance. America can't make China abandon the wretched Kim Jong Il government, but U.S. officials should be working with their Chinese counterparts on contingency plans for a regime collapse. Washington and Beijing would have different priorities in such a scenario, but both would be seeking to prevent a refugee crisis and secure North Korean nuclear materials.

After going soft on China in 2009, the Obama administration got much tougher in 2010. Hillary Clinton has been especially active in the region, and her diplomatic efforts deserve high praise. Last Friday, Hillary delivered a forceful China speech in which she named specific political prisoners (including 2010 Nobel Peace Prize winner Liu Xiaobo) and urged Beijing to fulfill its international human-rights obligations.

Even as East Asia becomes more economically enmeshed with China, its governments (democratic and non-democratic alike) are becoming more concerned about Beijing's burgeoning military power and possible hegemonic ambitions. The opacity of Chinese policymaking has fueled widespread uncertainty over Chinese intentions. Communist authorities claim that China's rise will be "peaceful," but such promises ring hollow when the People's Liberation Army tests a new stealth fighter jet, as it did last week. Not surprisingly, Asian officials have been pursuing greater defense cooperation with Washington. The Obama team, to its credit, has eagerly obliged, forging closer security ties with South Korea, Australia, Vietnam, Indonesia, and other countries. Moving forward, the U.S. must upgrade its naval capabilities to counter growing Chinese maritime strength.

After briefly flirting with the idea of a U.S.-China "G2," Obama officials have embraced a more realistic approach to the Middle Kingdom, engaging Beijing on issues of mutual concern while also working hard to bolster American security partnerships throughout Asia. The Chinese have denounced this as a "containment" policy, which it is. But it is one that the Chinese have the power to make unnecessary.