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Globalist: U.S. and China joined at the hip on stability

By Roger Cohen International Herald Tribune

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NEW YORK The Cold War era had mutual assured destruction (MAD) - the deterrent effect of the knowledge that full-scale nuclear attack would result in the annihilation of both sides - to focus the mind and keep the peace. It was not edifying but it worked well enough.

The closest equivalent to MAD today lies in the United States-China relationship, a web of links by now so critical to each country that for either to turn its back on cooperation would result if not in mutual destruction, then at least in a crippling debacle. The countries, ideological strangers but economic bedfellows, are joined at the hip.

This explains what Donald Emmerson, an Asia expert at Stanford University, called the "de facto stability" in bilateral ties, a steadiness in the world's most critical relationship that seems likely to endure despite the countries' many differences and the gaffes that marked the visit of China's president, Hu Jintao, to the White House.

Before coming to Washington - where his speech was disrupted by a heckler from the Falun Gong spiritual sect and a White House announcer managed to get China's official name wrong - Hu went to meet corporate executives on the West Coast, an order of business indicative of the reality of U.S.-China ties.

That reality is the following: Wal-Mart alone bought Chinese goods worth \$18 billion in 2004. If the American consumer is able to keep heading to the mall to gobble cheap electronic goods, clothes, shoes and just about everything else, it's thanks to the containers arriving from China.

A lot of that consumer spending, a bedrock of the American economy's vitality, is financed by credit card debt, which is ballooning in the United States. And if that debt is still affordable, it's because China has stuck to a policy of using an undervalued yuan to buy United States Treasury securities and so help keep American interest rates down.

The biggest deficit spender of all, of course, has in recent years been President George W. Bush's government. Bush knows just how devastating it would be if Hu, on a sinister whim, decided to switch from Treasury bills to euro-denominated securities.

"To understand China-America ties, just look at the amount of American debt held by China," said Lu Xiaobo, a professor of political science at Columbia University. "There are economic imperatives that keep the relationship on track."

Wal-Mart, meanwhile, now has 56 stores in China employing about 30,000 people, one of tens of thousands of American corporations drawn to the huge, acquisitive and fast-developing Chinese market or to the low production costs there.

American investment in China is inextricable from the "peaceful rise" planned by China's leaders - Hu uses the word "peace" with the same alacrity that Bush utters the phrase "war on terror" - and it's not

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surprising Hu made much of what he called the "win-win China-U.S. economic cooperation" during his visit.

Of course, "win-win" is only part of the story. Unavoidable and indivisible would be a more accurate description of that cooperation, whose costs include the migration of U.S. manufacturing jobs to China, the large-scale Chinese theft of U.S. intellectual property, the acceptance by the likes of Google and Yahoo of censorship of their services, and an annual American trade deficit of \$200 billion.

U.S. lawmakers are threatening punitive tariffs if China does not change its ways, notably by allowing a wider band for the yuan currency to appreciate against the dollar. Such a rise would go some way to address the trade imbalance by making American imports to China cheaper and Chinese exports to the United States more expensive.

But as with everything in the U.S.- Chinese relationship, one moving piece affects another. A stronger yuan would also make U.S. assets cheaper to the Chinese, and China's appetite for everything from oil to other natural resources is well known, a growing source of friction between the two countries.

If the blocked Chinese effort last year to buy the American oil company Unocal is any guide - and it almost certainly is - any renewed push to acquire U.S. oil, metals or mineral companies would run into strong congressional resistance.

That resistance reflects the enduring suspicions and mistrust that lie beneath the stability in bilateral relations that economic realities guarantee. China is still a Communist country, albeit with a fast-growing capitalist economy, the leading advocate of the school that says stability guaranteed by a one-party dictatorship trumps democracy for a developing country.

The United States, under Bush and almost inevitably under any president, will continue to press for the spread of democracy and freedom that remain inseparable - even after Abu Ghraib and Guantánamo Bay - from the American idea. The heckling from Falun Gong and Bush's call to Hu to allow the Chinese people to "speak freely" were useful reminders of these differences.

There will be others - over the competition for oil and other resources, over how best to persuade North Korea to abandon its nuclear weapons program, over human rights, over China's military buildup, over Taiwan and over trade.

All these potential sources of friction could be sharpened by internal Chinese instability. The unrest in the Chinese countryside and the discontent that market forces are spurring in an increasingly unequal society are just two manifestations of the uncertainties looming over China. They make predictions hazardous.

But I would bet that the MAD rule will apply, keeping the United States and China in a broadly cooperative relationship.

It's not just the 2008 Olympics or the fact that China wants to get a lot richer before it risks confrontation with the United States. It's something deeper and not yet fully understood: the mesmerizing workings of a global economy whose development has created a unique symbiosis between these countries.

Hu knows this reality. That's why he started his visit with the chairman of Starbucks, Howard Schultz, and Bill Gates of Microsoft. Perhaps a half-century from now a visiting Chinese leader will dispense entirely with the White House, knowing where the real power lies.

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