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US, China struggle with mid-life crisis

By Jing-dong Yuan
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MONTEREY, California - Beijing's highly charged, unequivocally strong responses to United States foreign policy actions in recent months have gone beyond past practices of mere rhetoric, setting the scene for more trouble when disputes over trade, currency and the pending Iran sanctions issue are added to the mix.

The first sign of a fracture after a smooth and upbeat first year in Sino-United States relations under the Barack Obama administration came at the climate summit in Copenhagen last December, followed by the Google controversy, the spat over cyber-space, the administration's decision on arms sales to Taiwan, which was met with the threat of sanctions on US weapons suppliers, and Obama's meeting with the Dalai Lama last month. Expected high-level exchanges, especially between the two militaries, have been put on hold.

The Obama [administration](#) started its tenure viewing the relationship with China as one of its most important bilateral ties and cast the relationship as cooperative, positive and comprehensive. There was the visit by [Secretary of State](#) Hillary Clinton in February last year; the Hu Jintao-Obama acquaintance at the Group of 20 summit in London in April; the elevation of previous sub-cabinet bilateral high-level and economic dialogues into one strategic and economic dialogue at [the cabinet](#) level; and the Obama visit to China in November.

The frequency and level of bilateral high-level contacts was unprecedented, as were the high (and perhaps unrealistic) expectations of closer cooperation between the world's sole superpower and its fast-growing runner-up. Just think about the accolades of a Group of Two, Chinamerica, among others.

So, [what went wrong](#)? The global economic and financial crises have imposed significant constraints on both Beijing and [Washington](#), with major problems of unemployment, financial insolvency, economic downturn (for the US), and growing socio-economic turmoil. The imperatives of stimulating economic activities and keeping and generating jobs have become top priorities for both countries. China in particular has become a major factor in how the Obama administration handles its economic challenges, including continued Chinese purchases of US debt.

The imperatives of domestic politics also find Beijing and Washington reluctant to cede too much ground on issues related to trade balances, currency evaluation and [climate change](#) - especially when dealing with them requires sacrifices that neither side can afford and makes them unwilling to adopt policies that involve short-term costs. Both governments reacted negatively toward each other's perceived buy-America/buy-China provisions in their respective stimulus packages; neither was willing to make binding commitments to the reduction of gas emissions at the Copenhagen summit.

China has basically halted the gradual appreciation of the yuan, which has risen 25% against the US dollar since 2005, then it initiated a policy that in effect pegged the yuan to the greenback. While Chinese exports have plunged in the past two years, Beijing's policy of keeping its currency stable has enabled it to regain an upward trajectory in exports, which have increased massively in recent months. Understandably, this has been met with charges of currency manipulation from certain quarters of the [US government](#) and manufacturing sectors.

Economic conflict appears unavoidable in the best of times in Sino-US relations, let alone when America has been suffering an unusually high level of unemployment over a protracted period, and when the control of congress by the Democrats, whose electoral base is in organized labor and manufacturing, is pressuring the administration to confront what is seen as unfair trade with China.

But the longer-term and broader implications of the current US-China spat and controversies are the structural changes now taking place in the international system. China is on the rise while the US is in decline. The government in Beijing presides over a [gross domestic product](#) close to \$5 trillion and the country is poised to surpass Japan as the world's second-largest [economy](#). And with more than \$2.4 trillion in foreign reserves and \$900 billion in US debt holdings, Beijing finds it necessary, and is confident about, standing up to Washington.

Not that Beijing is eager to pick fights with Washington or that it is becoming impatient to take the number one spot. Far from it. China has remained low profile and moderate in displaying its newfound prowess and is reluctant when under international pressure to take on more responsibilities, such as intervention in Myanmar or Darfur, for example.

But China's rising power makes it less willing to accommodate US interests, especially when this would incur costs - costs in reputation, such as, in the eyes of the Chinese, that their government is too weak; costs such as imposing more sanctions on Iran and tightening existing sanctions on

North Korea. China could still do it, but not without proper compensation and the ability to explain to its constituency, especially its hyperactive netizens.

In such circumstances, US arms sales to Taiwan and Obama's meeting with the Dalai Lama, the exiled Tibetan spiritual leader, appear to Beijing as especially insensitive and insulting and require strong responses. But Washington is perhaps equally in a bind in that Obama was largely perceived as too deferential and weak to his hosts on his visit to China last November; his postponement of a meeting with the Dalai Lama last year triggered strong criticism as well as disappointment. He could ill-afford delaying decisions on arms sales already announced by the outgoing George W Bush administration. And when he did meet the Dalai Lama last month, it left Beijing predictably expressing rage.

Looking ahead, one can expect more instances of conflict than of cooperation. The Sino-US relationship remains the most important bilateral relationship in the world and both countries can gain a lot from cooperation. This requires both Beijing and Washington to adjust and adapt during a period where they have never needed each other more in dealing with a multitude of problems.

However, this is also a period in which power transitions and domestic politics could push the two countries on a collision path that neither seeks nor can gain from and cause a major rupture of ties.