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World

Geithner Goes To China: Will He Soothe Or Spark?[Listen Now](#) [3 min 50 sec] | [add to play list](#) | [download](#)

Weekend Edition Saturday, May 30, 2009 · U.S. Treasury Secretary Timothy Geithner is winging his way to China Saturday. On Monday and Tuesday he'll meet with officials, including China's President, Hu Jintao. In January, Geithner angered Chinese officials when he accused them of manipulating China's currency to boost exports. The Chinese shot back that the U.S. should get its own house in order — referring to the growing U.S. budget deficits and its role in the global financial crisis.

Host Scott Simon previews the trip with NPR Economics Correspondent John Ydstie.

Geithner's China trip comes at difficult timefrom **The Associated Press**

Timothy Geithner's first trip to China as treasury secretary comes at a vulnerable time for the Obama administration.

Mired in a brutal recession, the United States needs Beijing to buy more American goods, allow its currency rise and make other moves to narrow an enormous trade gap. The U.S. also needs China's help to confront any military threat from North Korea.

FILE — In this May 12, 2009 file photo, Treasury Secretary Timothy Geithner speaks at the Treasury Department in Washington. Geithner's upcoming trip to China as treasury secretary comes at a vulnerable time for the United States. Mired in recession, the U.S. needs China to boost its purchases of U.S. goods, let its currency rise and take other steps

Yet Washington's leverage has waned just as China's power over the U.S. has grown.

China is now America's biggest creditor. As of March, it held \$768 billion of Treasury securities — about 10 percent of publicly traded debt.

The U.S. needs China's money

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to narrow a massive trade gap. And on the foreign policy front, America needs China's help to combat a growing threat from North Korea. Associated Press © 2009

to finance U.S. budget deficits, which are soaring as Washington tries to end the recession and bolster the banking system. The administration estimates the budget deficit will hit \$1.84 trillion this year. That's four times last year's deficit.

Geithner, who left Saturday for meetings Monday and Tuesday with Chinese leaders, carried an ambitious U.S. goal of persuading the Chinese government to adopt policies that would transform its nation of savers into spenders.

Geithner spent the long flight to Beijing working on a speech he planned to give at Peking University that was expected to lay out the administration's recovery program and its current progress. He was also expected to talk about the administration's determination to deal with the government's soaring expenditures once the U.S. economy is recovering.

The current U.S. administration, just like the Clinton and Bush administrations, is convinced that the key to a prosperous global economy rests heavily with China. The U.S. wants Beijing to rely more on domestic spending and less on its exports to power its own economy — and the world's.

That shift would uncork enormous buying power and help rebalance world trade. It could hasten an end to the global recession and narrow America's huge trade gap because the Chinese would buy more American products.

China would benefit, too.

"Beijing really wants Washington to be successful in bringing the U.S. economy out of this recession as fast as it can because it is critical to Beijing's own economic growth," said Kenneth Lieberthal, a China expert at the Brookings Institution.

For the Chinese, there is growing nervousness about the explosion of U.S. borrowing. Like any bank worried about its loans, the Chinese have fretted over America's budget gap. In March, Premier Wen Jiabao said, "We've lent a huge amount of money to the U.S. Of course, we are concerned about the safety of our assets."

Those comments, plus remarks by the head of China's central bank about whether the world needs a new top reserve currency to replace the U.S. dollar, jolted financial markets.

The administration insists it isn't worried that the mound of debt it's creating will jeopardize America's sterling AAA bond rating. But treasury officials said Geithner still intends to reassure the Chinese.

Geithner plans to stress that the administration sees the \$1 trillion-plus deficits for this and next year as temporary. The deficits are necessary to fund a stimulus plan to help lift America out of recession and invigorate a wobbly U.S. banking system, officials say. Once those needs are met, the administration says it will make deficit reduction a priority.

Security tensions in Asia have flared since North Korea's recent nuclear weapons tests and missile firings. Because China is viewed as a critical player in any successful resolution of a North Korea standoff, Geithner is expected to address the topic with Chinese leaders.

In addition to talks with President Hu Jintao and other leaders, Geithner plans a speech Monday at Peking University, where he studied Mandarin Chinese during two summers when he was in college.

Geithner will hold an event at a Ford Foundation program in Beijing to support the study of economics in the U.S. The program was started by his father when the elder Geithner was based in Asia as a foundation official.

That the chief U.S. economic policymaker is going hat-in-hand to the Chinese to explain the soaring deficits shows how much has changed since President George W. Bush's treasury secretary, Henry Paulson, met with the Chinese in 2006.

Paulson managed to arm-twist China into agreeing to a new round of economic talks aimed at prodding Beijing to move faster to let its currency, the yuan, rise in value against the dollar. Doing so would make U.S. exports cheaper for the Chinese to buy.

But this time, Geithner is expected to adopt a softer tone even though some U.S. lawmakers want tough penalties on China and other countries deemed to manipulate currencies to gain trade advantages.

American manufacturers see the undervalued yuan as the major culprit in the trade deficit with the Chinese, which last year hit \$266 billion, the highest recorded with one country.

The Chinese agreed in 2005 to begin letting their currency rise against the dollar, and it has risen about 20 percent. But those gains stopped last summer. China had begun to fear that a stronger yuan was reducing its export sales, already hurt by the global downturn.

Though the crisis has given Geithner a weak hand, treasury officials said he will seek to push this bargain:

The U.S. will work to reduce its budget deficits once the crisis ends, urge Americans to save more and shrink the trade deficits. To replace diminished U.S. spending, the Chinese will be asked to step up spending and stop saving so much. The administration says this can be done if Beijing improves pensions and health insurance so Chinese households don't feel pressured to save so much.

Geithner is expected to point out that U.S. consumers already are rebuilding their retirement savings. The Chinese have pledged to redirect their economy to boost domestic growth. But many private economists question how serious China is about it.

Analysts said they expect Geithner and the Chinese to pledge to do all it takes to end the recession. Both sides know any hint of discord between the world's largest and third-largest economies probably will unsettle financial markets.

That's one reason analysts aren't expecting the new administration to press hard on the currency issue. As a candidate, President Barack Obama pledged to crack down on countries seen as cheating on global trade rules and hurting U.S. companies and workers.

Last month, though, the administration chose not to cite China as a currency manipulator. That disappointed U.S. manufacturers and labor unions.

But Frank Vargo, vice president for international affairs at the National Association of Manufacturers, said he understood the change in tone. "They talked a tougher line during the campaign, but the world changed," Vargo said. "It is a much more delicate time now."

Associated Press writer Joe McDonald in Beijing contributed to this report.