

Yellen Faces a Diplomatic Test in Her High-Stakes Visit to China

The Treasury secretary will need to defend export controls and tariffs while explaining that the United States does not aim to harm China's economy.



By Alan Rappeport

Alan Rappeport covers the Treasury Department and is traveling with Secretary Janet L. Yellen to China this week.

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At her confirmation hearing in early 2021, Treasury Secretary Janet L. Yellen struck a tough tone on China, describing it as America's most important strategic competitor and pledging to confront its "abusive, unfair and illegal practices" that she said were harming businesses and workers in the United States.

Since then, Ms. Yellen has emerged as a voice of moderation in the Biden administration, embracing the mantle of economic pragmatism as the world economy copes with inflation and sluggish growth. The Treasury secretary has expressed objections to China's record on human rights, called for diversifying American supply chains and acknowledged that protecting national security is paramount.

But she has also been the administration's most prominent proponent of maintaining economic ties with China, arguing against tariffs, urging caution on new restrictions on investment in China and, most recently, warning that decoupling the two economies would be "disastrous."

Set to arrive in Beijing on Thursday for a four-day visit, Ms. Yellen will be navigating those conflicting interests in real time. The trip, her first as Treasury secretary, represents Ms. Yellen's most challenging test of economic diplomacy to date as she attempts to ease years of festering distrust between the United States and China.

For Ms. Yellen, the challenge will be to convince her Chinese counterparts that the bevy of U.S. measures blocking access to sensitive technology such as semiconductors in the name of national security are not intended to inflict harm on the Chinese economy. That will not be easy, as both countries continue to erect new barriers to trade and investment.

The Biden administration is preparing several new restrictions on U.S. technology trade with China, including potential limits on advanced chips and U.S. investment in the country. Forthcoming rules also appear likely to clamp down on Chinese companies' access to U.S. cloud computing services, according to people familiar with the matter, in an effort to close a loophole in earlier restrictions on China's access to advanced chips used for artificial intelligence.

This week Beijing retaliated against the Biden administration's limits on semiconductors, announcing it would restrict the export of certain critical minerals used in the production of some chips.

On Monday, ahead of her trip, Ms. Yellen met in Washington with Xie Feng, China's ambassador to the United States, and laid out "issues of concern" in what the Treasury Department described as a frank conversation. According to a summary of the conversation released by the Chinese Embassy, Mr. Xie explained China's objections to America's trade practices and urged the United States to take steps to resolve them.

In her meetings in Beijing, Ms. Yellen is expected to make the case that the Biden administration's actions to make the U.S. economy less reliant on China and to entice more production of critical materials inside the United States are narrowly focused measures that are not meant to instigate a broader economic war. China continues to hold nearly \$1 trillion of U.S. debt and is America's third-largest trading partner, making an abrupt severing of ties potentially calamitous for both countries and the global economy.

"I think she is going to go as the sober voice of reason to say this is not about containment," said Tim Adams, the president of the Institute of International Finance and a former Treasury under secretary for international affairs. "It's really about setting the tone of cooperation and showing that the U.S. remains interested in being engaged with China on trade and investment."

Through the past several decades, the Treasury has consistently been the American government agency that has tried hardest to maintain friendly relations with China. Wall Street firms, a key constituency for the department, tried through the 1990s to win access to the Chinese market through China's negotiations to join the World Trade Organization. After China joined the W.T.O. in 2002, Wall Street firms and the Treasury Department pushed for China to move faster in actually opening its markets.

Beijing finally agreed in November 2017 to allow foreign investors to hold much larger stakes in insurance, banking and securities businesses, as part of a series of concessions made in an unsuccessful attempt to head off a trade war with the Trump administration.

While it is her first trip to Beijing as Treasury secretary, Ms. Yellen is no stranger to China. In her role as president of the Federal Reserve Bank of San Francisco, she had regular contact with Chinese officials, and as chair of the Federal Reserve from 2014 to 2018 she would meet with officials from China's central bank at international gatherings.



The Zhoushan port in the Chinese province of Zhejiang. China is America's third-largest trading partner, making an abrupt severing of ties potentially calamitous for both countries and the global economy. Agence France-Presse — Getty Images

Ms. Yellen's credentials as an academic economist have made her a welcome emissary in Beijing.

"They like her very much because she looks at the world in economic terms, and they're extremely comfortable with that," said Craig Allen, the president of the U.S.-China Business Council.

Michael Pillsbury, a senior fellow for China strategy at the Heritage Foundation, said that Chinese officials viewed Ms. Yellen as a voice of reason and that they hoped she would be able to make the case to others in the Biden administration that the United States should back away from new investment restrictions and roll back tariffs.

"They want Janet to help," said Mr. Pillsbury, who was a top adviser on China in the Trump administration. "They see her as a friend of China."

Ms. Yellen does not direct trade policy, but she has been critical of the tariffs that President Donald J. Trump imposed on more than \$300 billion of Chinese imports.

"Tariffs are taxes on consumers," Ms. Yellen told The New York Times in 2021. "In some cases it seems to me what we did hurt American consumers, and the type of deal that the prior administration negotiated really didn't address in many ways the fundamental problems we have with China."

Those tariffs remain under review by the Office of the United States Trade Representative, and Ms. Yellen has acknowledged that they are unlikely to be rolled back anytime soon.

Ms. Yellen's ability to forge deeper ties with Beijing could be complicated by the current political

moment.

Concerns about China have grown after a spy balloon traversed the United States before being shot down over the Atlantic Ocean. The upcoming presidential election is also likely to escalate anti-China rhetoric as candidates look to paint themselves as tough on China, often a winning campaign message. And Republicans have been expressing criticism of greater U.S. outreach to China.

Ms. Yellen's visit follows a trip last month by Antony J. Blinken, the secretary of state. John F. Kerry, the special climate envoy, is expected to make a trip to Beijing soon.

Representative Mike Gallagher, a Wisconsin Republican who leads the House Select Committee on the Chinese Communist Party, accused the Biden administration of slow-walking export restrictions targeting Huawei, the Chinese telecom giant, and sanctions against Chinese officials responsible for human rights violations against Uyghurs in Xinjiang. He argued that China's behavior had gotten worse while the Biden administration pursued "zombie engagement" with the Chinese Communist Party.

"After Secretary Blinken left Beijing with little to show for his trip, doubling down by sending additional cabinet-level officials like Secretary Yellen would only perpetuate this vicious cycle," Mr. Gallagher said.

With Republican presidential candidates like Nikki Haley warning that China is "preparing for war" with the United States, there is additional urgency for Ms. Yellen to find ways to keep the lines of communication with her Chinese counterparts open even if her trip does not yield any major breakthroughs.

"The Chinese are very aware of the U.S. election cycle, and in my mind this is partly why they have been willing to be a little more open," said Eswar Prasad, a former head of the International Monetary Fund's China division. "Both Secretary Yellen and the Chinese would like to get back to a place where they see at least parts of the economic relationship as a positive-sum game, rather than a zero-sum game."

Keith Bradsher contributed reporting.

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