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Geithner aims for new tone in U.S.-China relations

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By [Glenn Somerville](#) - Analysis

BEIJING (Reuters) - U.S. Treasury Secretary Timothy Geithner sought a new tone for dealings with China on his first trip to Beijing as Treasury chief this week, one aimed at softening the edges in what has become an unavoidably close relationship.

In two days of meetings with top Chinese officials on Monday and Tuesday, Geithner stressed his support for Chinese economic reform efforts and waved off some of the tougher rhetoric that his predecessors used on contentious matters, such as Beijing's currency policy.

Analysts said Geithner played the role of "gracious guest," right down to using a few Chinese-language phrases in speeches to highlight the time he had spent in China as a young student in the 1980s studying Mandarin. Differences between the two countries can be handled more diplomatically than in the past, he implied.

"Our engagement should be conducted with mutual respect for the traditions, values and interests of China and the United States," Geithner said in a keynote address to students at Peking University. "We each have an obligation to ensure that our policies and actions promote the health and stability of the global economy and financial system."

His comments only acknowledge reality: the United States and China are locked in an increasingly tight embrace that neither side is completely thrilled about. China is the single largest U.S. creditor, holding \$768 billion of U.S. Treasury securities -- and possibly more -- and the United States badly needs China to keep buying as it sells growing volumes of debt.

Chinese economists and leaders have expressed concern about the safety of their U.S. dollar-denominated debt if soaring U.S. budget deficits trigger a dollar fall, and Geithner repeatedly said the Obama administration is committed to reduce deficits as soon as it pulls the economy out of a 17-month-old recession.

"No one cares more about it than us," he said over and over, referring to the need to get U.S. borrowing and spending under control.

While softening the rhetorical approach, Geithner twinned his message with a renewed urging for China to move to a flexible currency that might encourage more consumption at home and less reliance on debt-strapped American consumers.

His refusal to call the yuan undervalued -- as former Treasury Secretary Henry Paulson frequently did - won praise from analysts, who said it kept the issue on the burner without letting it boil into a disputed item.

"He put the contentious issue of Chinese exchange rate policy squarely on the table but couched it in the guarded language of encouraging China to move toward greater exchange rate flexibility," said Eswar Prasad, a professor at Cornell University and former International Monetary Fund official.

Prasad said Geithner was "setting the right tone for a more constructive set of discussions" when the initial meeting of the U.S.-China Strategic and

Economic Dialogue takes place in Washington in the final week of July. The Obama administration broadened out a set of talks initiated by Paulson in 2005 to include a political as well as economic dimension and to have both the U.S. Treasury and the State Department as sponsors.

Geithner also played to China's aspiration to be recognized for its remarkable achievement in powering its economy to third-largest in the world, though it still is rated a developing country. "China is already too important to the global economy not to have a full seat at the international table," he said, offering full U.S. backing for a bigger stake for China in the IMF.

The bid to strike a better tone in what has often been a fractious U.S. relationship with China is a long-haul effort, and Geithner suggested Beijing must yield some ground in its own best interests since its current wealth owes so much to being able to sell to the United States.

"We expect increased opportunities to export to and invest in the Chinese economy," Geithner said, a comment that might point a way toward easing trade imbalances while demonstrating an ability to work together on a broader range of issues. The two countries cannot afford to let economic tensions grow with the global economy already on its knees.

"Cooperation between China and the United States will be essential to make progress on challenging issues such as global current account imbalances, reform of the international monetary system and climate change," Prasad said.

(Reporting by Glenn Somerville, Editing by Dan Grebler)

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