Booming, China Faults U.S. Policy on the Economy

By Edward Wong
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BEIJING — Not long ago, Chinese officials sat across conference tables from American officials and got an earful.

The Americans scolded the Chinese on mismanaging their economy, from state subsidies to foreign investment regulations to the valuation of their currency. Your economic system, the Americans strongly implied, should look a lot more like ours.

But in recent weeks, the fingers have been wagging in the other direction. Senior Chinese officials are publicly and loudly rebuking the Americans on their handling of the economy and defending their own more assertive style of regulation.

Chinese officials seem to be galled by the apparent hypocrisy of Americans telling them what to do while the American economy is at best stagnant. China, on the other hand, has maintained its feverish growth.

Some officials are promoting a Chinese style of economic management that they suggest serves developing countries better than the American model, in much the same way they argue that they are in no hurry to copy American-style multiparty democracy.

In the last six weeks alone, a senior banking regulator blamed Washington's "warped conception" of market regulation for the subprime mortgage crisis that is rattling the world economy; the Chinese envoy to the World Trade Organization called on the United States to halt the dollar's unchecked depreciation before the slide further worsens soaring oil and food prices; and Chinese agencies denounced a federal committee charged with vetting foreign investments in the United States, saying the Americans were showing "hostility" and a "discriminatory attitude," not least toward the Chinese.

All this reflects a brash new sense of self-confidence on the part of the Chinese. China seems to feel unusually bold before the Summer Olympics, seen here as a curtain raiser for the nation's ascent to pre-eminence in the world. The devastating earthquake last month helped by turning world sympathy toward China and dampening criticism of its handling of Tibet.

The Chinese attitude is no doubt bolstered by the lame-duck status of the Bush administration and by the fact that the United States is widely seen as having squandered its political and military leadership during the war in Iraq, which China opposed. Likewise, Chinese officials and state news media have suggested that the relatively quick mobilization of the Chinese Army during the recent earthquake in Sichuan Province contrasts favorably with the Bush administration's reaction to Hurricane Katrina.

The aggressive stand comes at an inopportune moment for the White House. Treasury Secretary Henry M. Paulson Jr. and other cabinet members are to meet with Chinese officials in Annapolis, Md., on Tuesday in the latest round of semiannual economic talks. The Americans have a laundry list of complaints, among them that the Chinese use regulations to favor domestic companies over foreign rivals and that Beijing does too little to police the theft of copyrights and patents held by Western companies.

The United States is also pressing China to address concerns about the safety of food and drugs it exports.

But China has its own list of grievances, topped by management of the dollar and restrictions on foreign investment in the United States. And the Americans could find themselves with little negotiating leverage.

"U.S. credibility and the credibility of U.S. financial markets is zero everywhere in the world," said Joseph E. Stiglitz, a professor of economics at Columbia University who has sharply criticized the Bush administration and praised China's economic management in the past. "Anybody looking at this from the outside says, 'There's been a lot of hot air coming out of the U.S., so why should we listen to these guys when they didn't know how to manage risk?' "

Here in China, economic observers are noting that the Chinese posture toward the Americans has decidedly shifted.

"This time, the Chinese side is trying to change its attitude to be more active, to be more aggressive, to balance the two sides," said Song Hongbing, author of "The Currency War," a best-selling if conspiratorial book on the American economy. "They just started to change their attitude for the future."

Chinese officials are expressing their disdain in forums around the world. Last month, Liu Mingkang, the chairman of the China Banking Regulatory Commission, delivered a lecture at the British Museum in London in which he blamed the American government for the subprime mortgage crisis that came close to freezing Western debt markets and required extensive intervention by the Federal Reserve. The turmoil, he said, was "counteracting the course of global civilization."

"Does moneymaking or doing business justify the regulators in ignoring their duty for prudential supervision and their job of preventing misbehavior?" he said.

One of Mr. Liu's colleagues, Liao Min, told the newspaper The Financial Times in late May that the "Western consensus on the relation between the market and the government should be reviewed."

“In practice, they tend to overestimate the power of the market and overlook the regulatory role of the government, and this warped conception is at the root of the subprime crisis,” said Mr. Liao, director general of the commission.

China is grappling with its share of economic problems, including high inflation. But it has reasons to feel optimistic.

Some economists say it has improved its state-owned banking system by writing off bad debt and overhauling management even as it rejected American pressure to privatize banks and allow unfettered competition in the financial sector. Its financial system is more tightly regulated and less dynamic than the American one, but also more stable, Chinese economists argue.

On currency management, China has been under heavy pressure to raise the value of the renminbi, which foreign critics say is maintained at an artificially low level to make Chinese exports less expensive. So far, China has managed to walk a tightrope. It has allowed the renminbi to increase in value against the dollar in tiny increments, for a total of 20 percent since 2005, a less dramatic change than the Bush administration and Congress demanded.

The gradual approach has allowed the export sector to adjust while preventing a currency shock that might derail growth.

Meanwhile, the Americans allowed the dollar to plunge in value. That angered the Chinese, which keeps most of its $1.76 trillion in foreign reserves in dollars. Chinese officials have accused the Americans of mismanaging the dollar at a time when Washington is still pressing China to appreciate the renminbi to narrow the trade deficit.

This month, the Chinese envoy to the World Trade Organization said in Geneva that the United States had failed to safeguard the value of its currency, worsening the pain for people around the world who pay high oil and food prices in dollars.

The envoy, Sun Zhenyu, also said the United States was engaging in protectionism by imposing unfair duties on Chinese goods and subsidizing American products.

Also this month, several Chinese institutions submitted sharp critiques to the Treasury Department of proposed new regulations relating to foreign investment in the United States. Some of the remarks were scathing.

“The regulations still include some sections and procedures which reflect the enshrouded protectionism, an obvious contradiction to the spirit of free competition the U.S. has championed since long time ago,” wrote the China Securities Regulatory Commission.

The commission said the proposed regulations reflected a “self-evident hostility” and “discriminatory attitude” to certain types of foreign investments and “will ultimately hurt enthusiasm of foreign investment in the U.S.”

China was particularly stung in 2005 by opposition in Congress to a bid by its third largest national oil company to buy the Unocal Corporation, an American oil company, for $18.5 billion.
Mr. Paulson, the Treasury secretary, said Monday that he agreed that there had been a “general trend” of China’s becoming increasingly vocal in its criticism of American policies, but that this was not a cause for concern.

“We’ve had a relationship where both sides have been pretty frank privately and pretty frank publicly,” Mr. Paulson said in a telephone interview in Washington. He said China’s criticism of American policies grew out of its rise as an economic power, with greater voice in global discussions on trade, currency and the flow of capital.

Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics in Washington, said in an interview that “the Chinese are reacting adversely, and I think with some justification.”

He added, though, that he interpreted China’s recent aggression more as a reaction to specific events or policies involving the American economy than as a result of a new surge in national confidence.

If that is the case, China might be able to avoid the pitfall of hubris. Japan attacked the American government’s economic management in the 1980s, only to find itself tumbling into recession and stagnation ever since. Some economic experts here warn that China’s economy could soon feel the full brunt of the downturn in the world economy, and that the American economy, in the long run, could stay on top.

“The U.S. has always considered its economy powerful and is reluctant to listen to other countries,” said Lin Jiang, the head of the economics department at the China Youth College for Political Sciences in Beijing. “Of course China now is more confident than before and Chinese people are more proud of China’s economy, but we can’t be blind. It’s still hard to challenge the U.S.”

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