

# Canadian advice for President Obama on US–China relations

Dear Mr. President,

As crowded as your inbox is with urgent domestic and foreign policy priorities, I write to draw your attention to the top long-term challenge. Your approach to the content and conduct of America's relationship with China will have global consequences stretching far into the future.

Your strategy should be to treat China as a partner in leading the global economy. The groundwork for such a partnership has been laid by the previous administration through the Strategic Economic Dialogue. This dialogue has taken place at the level of senior officials. You should raise the dialogue to your own level. A one-on-one meeting with President Hu Jintao should take place early in your term. This should be the first of what would become regular bilateral leaders' summits for discussing bilateral and global interests.

## US–CHINA COOPERATION

Two items should top the agenda. The first item should be US–China cooperation, as there is much the two countries can do together. China has many domestic challenges. Rebalancing the economy will take time and resources, particularly to introduce clean and energy-efficient technologies. Joint research is needed to develop the new technologies. Nowhere do the long-term interests of both countries coincide more closely than around protecting the environment. Together the two countries hold the key to an international regime on climate change. Chinese officials have made it clear that they accept some global responsibility: if the United States commits to climate-change goals and programs, they say, "China will meet it almost half way."

BY WENDY DOBSON

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China's rapid emergence to pre-eminence on the global stage requires deeper engagement by the American administration.

Most Americans still think of China as a poor rural country run by an autocratic regime. Some see it as a threat. You, however, are aware that China's economy is now one of the world's largest, regardless of the measure used, because of its stunningly successful growth strategies over the past 30 years. China's urban coastal cities are now more modern than many of America's major cities. China is not a monolith. It is a decentralized country with local administrations that frequently disregard central directives. Size and diversity allow experiments with governance and production. From experiments come choices for addressing the legacies of central planning and grasping the opportunities of the future. Intense internal debates are going on about China's political and economic futures, and about its role in the world.

The complexities of China's domestic challenges should not be underestimated. As many as 15 million employees, most of them migrant workers, are

expected to lose their jobs in the next few months. Most of them will be sent home, and many will not have been paid at least since the October holiday. There will be many disgruntled citizens, caught up in a growth recession (caused by the policy mistakes of others, not by the Chinese) in a country that has known only rapid growth for more than a generation.

## MANAGING THE GLOBAL ECONOMY

The second agenda item is partnership with China in managing the global economy. China's rapid emergence to pre-eminence on the global stage requires deeper engagement by the American administration. Other major countries like Russia, Brazil, and India are also emerging, but none has yet managed its transformation as successfully as China. The United States' post-September 11, 2001 preoccupations with fighting terrorism and its foreign policy in the Middle East have shifted US attention away from historical alliances like those in Asia and from multilateral institutions. You are committed to changing this strategy. In bringing about change, you have the opportunity to treat China as an equal partner and stakeholder in the global economy.

It is in both countries' interests to see China take on more global responsibilities, and the Chinese leadership recognizes this. A week before the G20 leaders' meeting in November 2008, the Chinese government announced a huge fiscal stimulus package followed a few weeks later by measures to encourage more lending by Chinese banks. As Premier Wen Jiabao has said, stimulating the Chinese economy will be good for China and good for the world.

China has been a model citizen in the multilateral institutions for trade and

finance including the International Monetary Fund, World Bank, and World Trade Organization, but it has largely stayed on the sidelines. This stance has been consistent with China's interests: a peaceful and stable international system allows its leaders to focus on their domestic challenges. Domestic priorities of job creation and rapid growth have been served well by macroeconomic policies that promote growth and stability, including monetary and financial policies that stabilize exchange and interest rates. At the same time, this policy stance exacerbates international imbalances as measured by China's nearly \$2 trillion war chest of foreign exchange reserves. The leadership recognizes that growth driven by investment based on the cheap capital generated by its monetary and financial policies is unsustainable. Capital and other input prices are subsidized and overused, generating regional and rural-urban income inequality and dangerous levels of pollution and emissions. The leadership also recognizes that the other side of the problem is inadequate US savings.

## OVERHAULING INTERNATIONAL INSTITUTIONS

So far the imbalances are being dealt with through bilateral consultations. The International Monetary Fund has not been a player, in part because of mistrust built up during the Asian financial crisis a decade ago and in part because of its outmoded governance structure. China's clout in the institution is not commensurate with its economic significance. Similarly, the G8 lacks legitimacy because it is increasingly unrepresentative. The "8 plus 5" model for including China, India, and others in part of the meetings has outlived its purpose. The G20 is inclusive but probably too large to work effectively.

Overhauling the international institutions should be a hallmark of your presidency. You could signal in 2009 that the stand-alone G8 meetings should end with the current cycle (in Canada in 2010) and be replaced by a more repre-

sentative forum. Making the G20 a permanent leaders' meeting rather than a crisis management mechanism is one option. Creating a G14 (the least disruptive option but unrealistic in that smaller economies continue as members) is another option; a revamped G8 in which membership reflects economic significance measured at market exchange rates is another. This option would be disruptive. Yet if you delay such changes you could see China turn to an Asian regional group.

Overhauling the WTO is another priority. It will require very careful consideration. As a new WTO member, China has not been an active participant in the Doha Round of trade talks, arguing that it had already made many unilateral concessions in order to gain membership. Along with India, the EU, and the United States, it became an accessory to the breakdown of the Doha Round in July 2008, over disagreements about concessions in agriculture. Your election promises to evaluate trade in the interests of American workers could come back to haunt you if China does the same

as it copes with the disappearance of jobs in its export industries.

Handling this increasingly important relationship will take considerable patience and effort. Your commitment to pragmatic and respectful relationships with foreign powers will be a big plus. Realize too that if things go wrong in China, the consequences will spill over into the international system. You will also have to deal with American fears and concerns. China will not be a multi-party democracy any time soon, but already there is greater intra-party democracy and efforts to engage civil society groups in a controlled way, as well as experiments with political reforms in certain parts of the country.

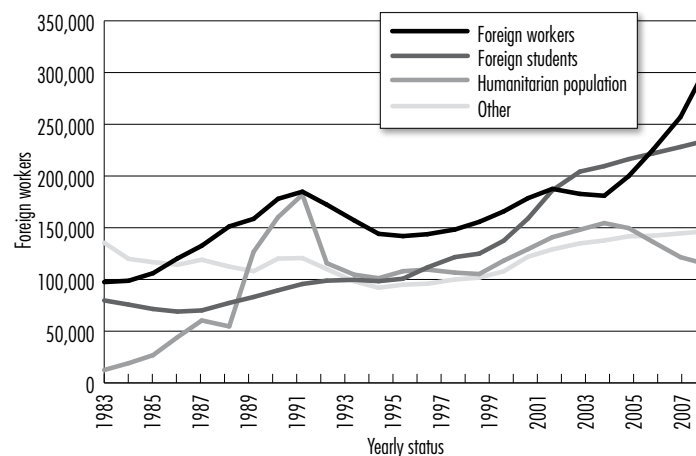
China's leaders and people will respond well to your habit of treating people and governments with respect. The stage is already set for rising bilateral disputes and conflicts because of the growing bilateral interdependence and the external imbalances that have built up in the past decade. But the chances of managing them increase when both countries behave as equals. ❀

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and have few if any pathways to permanent residence, it is unlikely that their situation will improve. As policy debates continue, analysts will look for "best practices," of which the Canadian model is constantly touted as an exemplar. Rather than accepting this assessment uncritically and continuing to operate

under the assumption that less regulation or deregulation is good, it is important to examine Canadian TMWPs and other visa programs critically, to identify and implement policies and regulations that reduce vulnerability and increase health and security for all. ❀

**FIGURE 1** Canada—Temporary Residents by Yearly Status, 1983 to 2007



Source: Canada—Temporary residents by yearly status, 1983 to 2007. Facts and Figures 2007. Ottawa: Citizenship and Immigration Canada. <http://www.cic.gc.ca/english/resources/statistics/facts2007/temporary/01.asp>.