US/CHINA: Yellen's visit reinforces cyclical stabilization of relations

- US Treasury Secretary Janet Yellen's meetings in Beijing yielded no policy breakthroughs but marked further progress towards stabilizing bilateral relations.
- China's leadership likely views Yellen as the best advocate within the Biden administration for maintaining tight economic ties, and warm state media coverage suggests an attempt to flatter her.
- The cyclical improvement in bilateral relations is likely to continue through the APEC summit in November, but the outlook for 2024 is gloomier.

Yellen met with Chinese Premier Li Qiang, Vice Premier He Lifeng, and Finance Minister Liu Kun for a total of ten hours on 7-8 July. As with US Secretary of State Anthony Blinken's visit three weeks earlier, expectations for Yellen's visit were low. The Biden administration now habitually describes high-level talks as "communication" rather than "negotiation," thereby downplaying the possibility of concrete deliverables. While offering no hint that the Biden administration intends to roll back existing export controls or other sanctions, Yellen signaled that Washington recognizes the risk of unintended consequences from overly broad restrictions on trade and investment.

Consolidating rapprochement

Yellen's comments do not differ substantively from other officials, but her tone and emphasis were more conciliatory. "President (Joe) Biden and I do not see the relationship between the U.S. and China through the frame of great power conflict," she said. Yellen also emphasized the "important distinction between decoupling, on the one hand, and on the other hand, diversifying critical supply chains or taking targeted national security actions."

Beijing remains skeptical of this distinction, given that the sanctions Washington justifies based on national security also have broader economic effects. "The Chinese side believes that generalizing national security is not conducive to normal economic and trade relations," according to the readout from the official Xinhua news agency. But Beijing's response was generally positive, with the finance ministry readout describing Yellen's meetings as "frank, pragmatic, in-depth and constructive."

State media coverage was unusually warm, lavishing attention on Yellen's preference for mushrooms, which she enjoyed at a well-known Beijing restaurant specializing in cuisine from Yunnan province. Beijing likely views Yellen as the best advocate among senior Biden administration officials for maintaining tight economic relations. This view reflects both Yellen's own statements — including criticism of Trump-era tariffs — and the Treasury Department's history as an advocate for economic engagement with China across multiple US administrations.

On outbound investment, Yellen said that pending US restrictions will be "highly targeted, and clearly directed, narrowly, at a few sectors where we have specific national security concerns." The apparent delay of a long-awaited executive order on regulating US outbound investment to China may reflect the Biden administration's wish to avoid derailing the fragile bilateral rapprochement. Following Yellen's reassurances, this order may soon be issued.

Like Blinken before her, Yellen also used her trip to meet publicly with representatives of US companies in China. These meetings appear to be a gesture to demonstrate to the foreign business community that Washington is representing its concerns about China's business environment to top officials in Beijing. Yellen later confirmed that she expressed concern to Chinese officials about the recent crackdown on foreign consultants.

Limited time only

Looking ahead, our view remains that the next few months are a window of opportunity to stabilize bilateral relations ahead of a possible meeting in November between Biden and President Xi Jinping at the APEC summit in San Francisco. Even absent substantive breakthroughs, regular communication and fewer coercive policies from both sides improve sentiment among investors and corporate executives.

By year-end, however, the 2024 US presidential election cycle will kick into gear, reducing the political space for Biden to pursue rapprochement. Beyond the pending executive order on outbound investment, other risks on the horizon include the pending update to semiconductor export controls first implemented in October 2022. The US Commerce Department's revised rule could include even tougher provisions than the original version. The House Select Committee on China will also shape the agenda in Washington. The issued an interim report in June alleging that Chinese fashion brands Shein and Temu are facilitating sales to the US of apparel made with forced labor. The final version of the committee's report might draw further attention to this issue. On the Chinese side, recent restrictions on exports of critical minerals may accelerate Western efforts to develop alternative supply chains.

In fact, some political blowback to rapprochement is already apparent. Hawkish voices in Washington are criticizing plans for US climate envoy John Kerry to visit Beijing next week, marking a third consecutive senior US official to make that trip without a senior Chinese official reciprocating. Republicans also criticized a public handshake with He in which Yellen bowed respectfully.

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Gabriel Wildau
Managing Director
+1 (347) 714-4962
gabriel.wildau@teneo.com