

Business Times - 18 Jan 2011

Will Hu's visit make a difference?

Each leader needs to come out of it showing that the US-China relationship advances his own nation's economic interests

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PRESIDENT Barack Obama will host China's President Hu Jintao tomorrow, as part of a state visit that will be complete with an arrival ceremony, a joint press conference - with the two leaders appearing side-by-side - and even a glitzy state dinner to which anybody who is somebody hopes to be invited. (The dinner's guest list has yet to be released.)

The last state visit by a Chinese leader to Washington was in 1997, when Bill Clinton hosted Jiang Zemin.

President Obama extended the invitation to President Hu during the G-20 summit in Toronto last June, perhaps in the hope that in addition to highlighting the importance of the relationship between the world's two largest economic powers that have become so central to the stability of the international system, Mr Hu's meetings with Mr Obama and with other US officials, lawmakers and business executives will provide an opportunity to press the 'restart button' on Sino-American ties.

The relationship has been under strain since President Obama's visit to China in November 2009: the tensions built up during the United Nations Climate Change Conference in Copenhagen and in the aftermath of Mr Obama's meeting with the Dalai Lama and his decision to authorise US\$6.4 billion in military sales to Taiwan.

Then there have been continuing American allegations that China was manipulating its currency and Chinese concerns over US naval and air military exercises with South Korean forces in the Yellow Sea and over American opposition to China's newly assertive claims to disputed waters in the East China Sea and South China Sea.

The meeting also comes as the two nations are recovering from the global economic crisis and reassessing their geo-strategic interests in East Asia and elsewhere. In Washington and Beijing and in other world capitals, there is a recognition that China (with its huge surpluses) and the US (with its gigantic deficits) need to work together in order to rebalance the global financial system and to avoid another financial meltdown.

At the same time, Washington's long-time allies in East Asia have been expressing support for a continuing US military presence as a way of counter-balancing China's growing assertiveness.

So much has been said and written about the evolving strategic and economic ties between China and the US: pundits draw a variety of historical analogies to apply to what has been described the 'world's most important relationship' that could determine whether the first part of the 21st century will see continued globalisation and international peace or whether Beijing and Washington are doomed to relive the Cold War that had existed between the US and the former Soviet Union.

Or worse, that the economic and military tensions between two global powers will resemble those between Germany and Britain on the eve of World War I: a rising power (Germany then; China now) that is perceived to be challenging the existing pro-status-quo power (Britain then; the US now).

No one expects one visit to help provide clear answers to these questions. It is quite possible that, contrary to the conventional wisdom that seems to be preoccupied with the notion that an insecure 'declining' US and an overconfident 'emerging' China are bound to come to blows in the near future,

neither Washington nor Beijing are expecting dramatic changes in their relationship anytime soon.

In fact, as the Americans try to recover from the Great Recession and to get out of military quagmires in the Broader Middle East, and as the Chinese manage the consequences of their dramatic and yet risky economic growth, both sides may be interested in steadying their relationship instead of rocking the boat.

The public statements made by Presidents Obama and Hu - and even the body language they have projected during their meetings - suggest that the two and their close political advisers are hoping to stabilise the relationship and take steps to avert potential crises over, say, China's undervalued currency or Taiwan.

While many in Washington believe that China has become more aggressive since Mr Obama entered office, according to Douglas Paal, a retired US diplomat and an East Asia expert with the Carnegie Endowment for International Peace, almost every incident in the last year was actually a Chinese overreaction to developing circumstances, rather than a proactive manoeuvre.

'Beijing seems to recognise the downsides of these strong responses - which reflected public opinion more than China's long-term interests - and is sending reassuring signals that will hopefully set the tone for the summit in Washington,' Mr Paal says.

The problem is that, on both sides, there are political and bureaucratic forces that do want to pick a fight with the other. Chinese nationalists believe that the US is trying to contain their country's rise to economic and military power by pressing Beijing to revalue the yuan and to resolve their territorial conflicts with their neighbours to China's detriment. Mirror- imaging these fears are the suspicions of those Americans who believe that China is using a mercantilist strategy aimed at destroying the American economy while building up its military as part of an effort to get the US out of Asia.

And without a clear sign that the leaders in Beijing and Washington are in control in managing the bilateral relationship, these mutual fears could force both sides into a widening insecurity trap and ignite more confrontation in the future.

This danger was in display last week on the day when, just as US Defence Secretary Robert Gates was meeting with President Hu in Beijing, China's new J-20 stealth fighter made what was believed to be its maiden test flight.

In fact, reports in the American press suggest that it was an attempt by the Chinese military leaders to demonstrate Chinese might to Mr Gates and the Americans, displeasing President Hu and his political leaders who were interested in patching things up with the US and avoiding any tensions with the US before Mr Hu's state visit to Washington.

Similarly, while President Obama and his top aides have resisted pressure from protectionists and China bashers on Capitol Hill to punish the Chinese for refusing to revalue their currency, there is little doubt that if the US unemployment rate remains high and the American economic recovery slows down, Congress will embrace a more confrontational approach towards China and demand that the administration impose economic sanctions on it. And that could result in an all-out trade war between the two countries.

But the last thing that Obama administration officials need now, when the US economic recovery is gaining some momentum, is new economic tension with Beijing. US Treasury Secretary Timothy Geithner, seemed to be outlining the Obama administration's more pragmatic approach during an address in Washington last week, in which he emphasised that although China and the US compete globally, 'our economic strengths are largely complementary'.

'In our economic relationship with China, we have focused on two principal objectives,' Mr Geithner said in a speech at Johns Hopkins University. 'The first is to expand opportunities for US companies to export and sell to the Chinese market.'

That would require 'a more level playing field for US companies that compete with Chinese companies in China, in the United States, and around the world,' he said.

'Our second objective is to promote reforms that will reduce China's reliance on export-led growth and encourage a shift to domestic consumption and investment,' Mr Geithner said. 'As part of this, China's exchange rate needs to strengthen in response to market forces,' he insisted, adding that the changes in Chinese policy that the US was seeking - 'from its exchange rate to its treatment of intellectual property' - reflect changes that are fundamentally in China's interest. 'China will need to make these changes in order to promote its own long-term prosperity,' he said.

It is unlikely that the US and Chinese leaders will be able (or even try) to come up with detailed plans to rebalance the financial flows between the two economies. That will require politicians on both sides to make difficult decisions by reducing current patterns of spending and savings that will make it possible to slash US debt and increase Chinese domestic consumption.

More likely, the visit will focus on Chinese willingness to remove existing barriers to American exports and provide stronger protection for intellectual property rights. And there will probably be announcements on major investment and trade deals between the two countries as well as on a more detailed strategy on how to implement the agenda of the 2009 joint statement issued by the two sides during Mr Obama's visit to China.

The statement committed the two governments to expand bilateral cooperation in areas such as science and technology, clean energy, civil aviation, agriculture, public health, space science, and cultural and educational exchanges. Some progress in these areas has been made.

'China wants more technology transfer from the United States; it wants to be able to invest more in the United States,' according to Mr Paal. 'And the United States wants to have better market access in China, fewer technological constraints on our firms, and less loss in intellectual property.'

Hence each leader needs to come out of the summit able to demonstrate to an anxious public that the relationship between the two countries advances their own nation's economic interests - helping to accelerate US economy recovery and create more American jobs while providing more momentum to China's economic growth - and that the relationship does not amount to a zero-sum game.

That would be an effective way to diminish the influence of both the China-bashing protectionists in Washington and the anti-American nationalists in Beijing.

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