

## CHINA – FOREIGN POLICY AND NEW DEFENSE POSTURE

On the day that Barack Obama was sworn in as US president, China's defense department issued a white paper on the current status and plans of the People's Liberation Army's (PLA) - an English-language report aimed primarily at an international audience concerned about China's growing military presence.

It is the sixth such white paper since 1998, and the sixth demonstration that the country's attempts at transparency can be maddeningly unclear to western observers.

The paper reflects China's growing confidence in its increasingly important role on the world stage, while at the same time downplaying issues that have strained ties with the international community.

As with previous reports, *China's National Defense in 2008* is short on specifics about equipment and technology. Also, the US intelligence community remains convinced that China has understated its military budget by about 50 percent and is deliberately hiding its intentions. What is notable about the new paper is that it directly addresses the budget.

In one of its longest sections, the paper states that China's military budget has grown by about 20 percent annually in recent years for three reasons: rising salaries and benefits for servicemen; compensation for the rise in food and fuel prices; and modernizing the PLA's equipment.

The paper further argues that as a percentage of GDP, China's defense spending remains much lower than that of the US, the UK, France, Germany or Japan. Even if the CIA's higher estimates of China's defense budget were accepted, this would remain true.

Another shift in tone came in remarks on Taiwan. Previous papers used the threat of Taiwanese independence as one of the main reasons for China's naval build-up. The new white paper all but declares victory on this front: "*The attempts of the separatist forces to seek 'de jure Taiwan independence' have been thwarted, and the situation across the Taiwan Straits has taken a significantly positive turn.*"

Still, US weapon sales to Taiwan and increased military presence in the Asia-Pacific region are cited as security concerns for China.

Whereas previous papers downplayed China's global ambitions, the white paper signals a fresh confidence in China's position in the world. "*The Chinese economy has become an important part of the world economy, China has become an important member of the international system, and the future and destiny of China have been increasingly closely connected with the international community,*" the paper argues. From this perspective, the paper highlights China's growing presence in global "*military operations other than war,*" (MOOTW, in military jargon).

The white paper notes that China had close to 1,950 military peacekeepers serving in nine UN missions last year. The PLA recently held joint training missions with 14 countries, including the US, India, Australia and the UK. In this regard, the decision to send the Chinese navy to participate in the anti-piracy operations off the coast of Somalia is probably more of a sign of things to come than a one-off publicity stunt.

While the old concerns remain for both sides (Beijing's lack of budgetary transparency, Washington's weapon sales to Taiwan), the overall trend is toward closer ties between the Pentagon and the PLA.

The US-China relations probably hit their lowest point since the establishment of diplomatic relations early in the Bush administration when a Chinese F-8 fighter and a US Navy EP-3 reconnaissance aircraft collided near Hainan, China in April 2001.

At the time, the Pentagon had put military-to-military communications on hold pending a review.

After the incident was resolved, both sides began to take steps to ensure that a dialogue would remain open between their militaries, even if both continued to see each other as potential competitors.

Chinese and US forces staged their first joint search-and-rescue maneuvers in the Pacific and South China Sea in 2006, and Washington downplayed an unexpected surfacing of a Chinese submarine near a US aircraft carrier later that year.

There were some hiccups along the road, such as Beijing's refusal to grant a US aircraft carrier a port call in November 2007, but the both sides continued to pursue a deeper dialogue.

In April 2008, a military-to-military hotline was established to prevent any misunderstandings as Beijing begins to project its power beyond its littoral waters.

Obama's decision to retain Defense Secretary Robert Gates seems to indicate that the trend will continue, though there are likely to be further problems along the way.

The new white paper also highlights some of the steps that the PLA has taken to improve its transparency on the international stage - one of the main sticking points for the Pentagon. Last year, Beijing launched the Information Office of the Ministry of National Defense, which regularly releases military information and holds press conferences. Also in late 2007, Beijing rejoined the UN Standardized Instrument for Reporting Military Expenditures. Still, the new white paper does not mention China's aircraft carrier program or its missiles aimed at Taiwan, and these are both major concerns for Washington.

The PLA has established strong ties with its Central Asian neighbors through the Shanghai Cooperation Organization (SCO), which has held large-scale joint training exercises in recent years. But the new white paper also stresses improving ties with India and Japan as well. Previous papers emphasized concerns about Japanese attempts to modify its constitution to allow a military build-up. The new paper only mentions mutual visits by the Japanese and Chinese navies, and says the bilateral relationship has improved. The paper also downplays Indian concerns about the Chinese naval build-up and an ongoing border dispute. Instead, the report cites the joint counterterrorism training exercises held in China and India in 2007 and 2008.

While Japan and India are sure to appreciate the new tone, concerns remain about China's regional intentions. Japan and China claim overlapping ownership of a section of the East China Sea. Though diplomatic progress has been made on the issue, it remains unresolved and both sides have adjusted their defensive postures in recent years as a result. Negotiations over the disputed border with India have gone nowhere in recent years. Also, China's "*string of pearls*" strategy, which seeks to establish new naval bases and military ties along the sea lanes from the Middle East to the South China Sea, continues to be watched with a wary eye from New Delhi. Just as India is seeking "*blue-water status*" for its navy, or the ability to project power further away from its coastal region, China appears to be moving into the region with its navy.

Whereas previous white papers stressed the continued need for training within the PLA, the most recent report's emphasis is clearly on China's new place in the world. It describes the country as an indispensable nation: "*China cannot develop in isolation from the rest of the world, nor can the world enjoy prosperity and stability without China.*" While this emphasis is likely to cause concern in capitals around the world, it also opens the door for greater cooperation with China's neighbors and the US. The Chinese ships heading to Somalia will be the first test case for what Beijing clearly believes will be a new role for its military.

The US and China leaders in both capitals recognize that the US and China have broadly compatible interests on major issues. The still-unfolding international economic crisis and the chronically crisis-prone Korean peninsula and Taiwan Strait are high-profile examples,

The Obama administration's China policy should maintain continuity in a relationship that is generally stable and positive, and one that is crucial to addressing global economic issues, security situations in East Asia, and other international problems. Still, adjustments are necessary to advance US interests amid evolving challenges. Such adjustments should include foregoing needless politicization of issues and making likely empty threats in favor of approaches that engage China's self-interest and principles it officially accepts. US policy also must focus more on the implications of China's rise. The Obama administration's China policy can build on several strengths.

China policy was comparatively successful during most of the Bush administration, an assessment that is widely shared, including among many who will make or influence China policy under Obama. Early tensions had become relatively distant memories by the end of an administration that closed with President Bush's attendance at the Beijing Olympics opening ceremonies and China's muted reaction to the eleventh-hour consummation of a long-pending package of arms sales to Taiwan.

The Obama administration begins with significant good will in China. In 2008, participants in Chinese foreign policy processes and policy intellectuals were more supportive of the out-of-power party's candidate than in any US presidential election in at least two decades.

Despite concerns that an Obama presidency and an expanded Democratic majority in Congress might mean tougher lines on trade and related matters, they saw Obama as more likely than his opponent to continue the Bush-era China policy.

Unlike in many recent elections, the non-incumbent party's candidate did not make the prior administration's *"too soft"* China policy a major campaign issue.

Republican candidate John McCain's talk of an alliance of democracies and early-Bush-era-like skepticism toward engaging North Korea suggested to China that continued Republican rule was more likely to disrupt the status quo. Chinese sources also welcomed the presence of Clinton administration veterans among Obama's appointments to handle China policy and foreign policy.

Such staffing promised experienced, steady hands and continuity with another era of generally positive US-PRC relations.

Positive attitudes were reinforced for some in the Chinese policy community by Obama's more multilateral approach to international issues. On this view, multilateralism was needed to address pressing problems such as North Korea, terrorism, and climate change and would give China a surer role in shaping international responses.

Especially for more liberal Chinese policy elites, the election of a member of a racial minority, especially an African American, was a welcome breakthrough that undercut residual PRC shibboleths impeding innovative and collaborative dealings with Washington.

More fundamentally, leaders in both capitals recognize that the US and China have broadly compatible interests on major issues. The still-unfolding international economic crisis and the chronically crisis-prone Korean peninsula and Taiwan Strait are high-profile examples.

China's long-growing confidence abroad and now-rising insecurity at home can improve prospects for bilateral cooperation even though they also raise obstacles. Although China's new power and assertiveness internationally sometimes stiffen resistance to prescriptions emanating from Washington and global institutions serving (in Chinese critics' views)

American interests, they also reflect a China that is more confident and secure than at any time since the early nineteenth century. China's leaders thus have both the resources and will to play more significant and, sometimes, more cooperative roles in addressing international problems.

While the PRC regime's concerns about social unrest, exacerbated by the current economic crisis, mean that Chinese policy might become less inclined to bear costly international burdens, or more tinged with virulent nationalism, Beijing's domestic anxiety also gives its generally pragmatic leadership strong reasons to cooperate abroad where such a strategy promises to help with internal problems.

The new and most immediately pressing issue for US economic policy toward China is securing its cooperation in addressing the global economic crisis.

Here, the US agenda benefits from relative consistency in Chinese and American interests.

Despite its pointed criticism of the US' role in causing the crisis, China was generally cooperative at the US-convened G20 financial summit in Washington in November 2008.

It announced a US\$586 billion domestic stimulus package that resonated with US calls for China to rely more on internal demand for growth. Beijing signaled a commitment to continuing purchases of US debt, which Washington will need to sell in copious quantities to finance its recovery plan and which Beijing recognizes is necessary to sustaining the value of its massive US dollar asset holdings and to speed recovery in one of China's key export markets.

Beyond pressing such preliminary or short-term measures, US policies will face greater skepticism and resistance from Beijing. Although the Obama administration benefits from a clean slate and overlap between Beijing's and Obama's critiques of earlier under-regulation of the U.S. financial industry, this is likely too little to assure cooperation.

In several contexts, including at the bilateral Strategic Economic Dialogue near the end of the Bush administration, President Hu Jintao's comments at the G20 summit, and Premier Wen Jiabao's speech at the 2009 Davos Economic Forum, PRC officials and commentators have made clear that they blame US regulatory failures and business practices for the global economic calamity and expect China to play a major role in reforming international financial structures.

Although Chinese leaders and policy thinkers appear to understand that China is not ready to lead in shaping this international regime, their pointed critique is likely to persist.

With the US continuing to seek, and hold, so prominent a place, Beijing will have the inclination, and luxury, to attack America's role and agenda and the Washington Consensus approach to international economic policy. While this is partly posturing, it nonetheless risks impeding useful collaboration.

In seeking Chinese cooperation, US policymakers must take account of prickly Chinese politics. Although the “*Beijing Consensus*” has little meaning anywhere and limited traction in Chinese political circles, and although there is much skittishness and uncertainty about whether the “*Chinese model*” is replicable or should be exported, Beijing’s chafing at Washington’s continuing dominance is genuine.

So too is Beijing’s sharply increased disdain for the once-proud Anglo-American capitalist model and its once-arrogant proponents. Moreover, there is genuine resentment at many levels in China that a country with a per capita income of around US\$3000 is asked to bail out the world’s largest, and one of the richest, economies from troubles of its own making.

Such sentiments sharpened with the big losses to Chinese investors, including a recently established sovereign wealth fund that is burdened with high expectations, on large stakes acquired in US firms, especially in the financial sector.

While US aims will be well served by avoiding moves that needlessly resonate with these touchy issues, prospects for cooperation in addressing the economic crisis remain good, given the 30-year history of deepening bilateral trade and investment ties and the common interests it has produced. This interdependence also underlies the most enduring and serious issues in US economic policy toward China. \*

These include the trade imbalance, surpassing US\$250 billion annually, and vast Chinese foreign exchange reserves, now around US\$2 trillion, to which it contributes. While both numbers have grown alarmingly, the problems have changed qualitatively during the last decade.

The bilateral trade gap that was once part of roughly balanced international trade for China has become part of a very large Chinese global trade surplus, approximately 8.5 percent of GDP in 2008.

Under these conditions, the US can more effectively criticize China’s inappropriate trade and currency policies and practices and call for China to take measures to close the trade gap.

Such charges have become less vulnerable to being rebuffed as blaming China for a bilateral imbalance solely attributable to the US’ low domestic savings rate and other American policies and practices that have contributed to the US’ vast global trade deficit.

China’s global imbalance, unlike a merely bilateral one, creates economic perils for China that give Beijing self-interested reasons to heed Washington’s calls for remedial policies.

Among those dangers are inflationary pressures and very limited options for handling enormous foreign exchange reserves. As a presidential candidate, Obama invoked the vulnerabilities that come with US dependence on Chinese lending, warning that it is “*hard to say no to your banker.*”

As president, he can benefit from the obverse of that axiom: When you owe your banker lots of money, he has a problem, especially when the borrower is the world’s largest economy, an indispensable consumer of Chinese exports, and the issuer of the principal international reserve currency.

Beijing has few alternatives to investing its foreign reserves in dollar-denominated debt, securities, and ownership stakes. Such assets and US markets are irreplaceable in providing the deep, broad, and liquid markets China needs to put such enormous funds to work. U.S. policymakers need not fear that China will divest dramatically from U.S. markets and assets or shift foreign reserve holdings sharply away from dollars.

To the limited extent that China can, it has already embarked on that path and has ample reason to do so apart from concerns, or desires to retaliate, prompted by US criticisms and policies.

The Obama administration has latitude, and internationally legitimate grounds, to press China on policies and practices that limit market access for US exports, that unfairly promote Chinese exports, and that keep the value of the reminding artificially high.

US policies addressing these and kindred issues can and should invoke consistency with China’s self-interest and proclaimed aims. These include a shift toward greater reliance on domestic demand from dependence on export-driven growth, which faces constraint from the world’s limited capacity to absorb Chinese production, protectionist pressures in importing countries, and erosion of China’s comparative advantage in low-tech sectors that had been mainstays of the Reform-Era export economy.

Recent months have brought welcome developments, including Beijing’s backing away from heavy reliance on tax rebates for exporters, its nearly \$600 billion domestic stimulus package (although only a portion of that constitutes new spending), and holding fast to the ongoing project of building a stronger social safety net.

While the US can and should push this agenda, policymakers must recognize the limited potential for progress, including on some of the most vexing and important issues. For a regime that sees providing jobs as vital to social stability, limited near-term alternatives to export industries as means for job-creation, and mounting job losses--now in the tens of millions among migrant workers who toil disproportionately in export-oriented and construction industries, amid the global recession, there are compelling reasons to resist calls for export-harming measures, including trade policy reforms and currency revaluation.

So too, China's very high personal savings rate, which depresses consumer spending and undermines domestic demand, will remain intractable until China creates a viable social security and health care system and more robust consumer credit markets. Also, China's large and rising portfolio of US dollar-denominated holdings make currency revaluation costly and unappealing for Beijing.

To secure achievable gains, US policy must contain the impact of moves that, to Chinese eyes, "*politicize*" economic issues or make empty threats.

Talk from US politicians of banning broad categories of Chinese exports (even if partly reflecting valid safety concerns), branding China a currency manipulator and triggering retaliatory measures, or imposing sanctions on Chinese goods equivalent to the asserted undervaluation of the renminbi are recent examples of these phenomena.

So too, the politically charged backlash that has greeted contemplated PRC investments in US firms provokes complaints and suspicions in Beijing about American double-standards and hypocrisy and, in turn, wariness about investing in the US that can undermine the recycling of PRC foreign reserves and US access to needed capital.

While many US complaints have sound bases, and while domestic political reasons may compel leveling charges and threatening actions that raise tensions with China, US policy should work to minimize damage to bilateral relations. Although Chinese understanding of US politics and policymaking is vastly improved from a generation ago and although even the most thorough Chinese understanding of US aims and interests will not prevent opportunistic or disingenuous Chinese policy, the US can gain by offering reassurance that the more extreme measures debated in Washington will not be implemented and by making tailored arguments that invoke indisputable US rights and interests.

For example, US criticisms that focus on Chinese violations of specific WTO obligations and US complaints against China before the WTO dispute resolution body can reduce the evasion and pushback Beijing employs when facing more sweeping and general U.S. condemnations of "*unfair*" Chinese trade practices or, worse, broad assaults on liberal international trade principles that have helped produce the cavernous bilateral trade gap.

So too, US policy should pursue effective assurances that China's sovereign wealth fund and major state-linked companies meet international standards and play by market rules when investing in the United States.

This is more promising than an approach that frames concerns about the motives and effects of PRC investment in broad-brush terms that risk being dismissed as reflecting an "*anti-China*" agenda and denounced as telling China that its hoard of dollars is not broadly spendable in the United States.

US policy can and should stress the obverse of China's grievances, pushing Beijing to address Washington's concerns about Chinese regulation of inbound investment.

US positions should, and often do, acknowledge the great progress China has made in liberalizing its foreign investment regime, the tremendous gains this has produced for China, and the benefits reaped by American consumers and companies. Especially in the face of Beijing's complaints about US restrictions on Chinese investment, US policy can and should address the more restrictive stance in some sectors in Beijing's most recent foreign investment "*catalogue*"; signs that review of mergers and acquisitions under China's new Anti-Monopoly Law are stricter for foreign purchasers; delays in reaching a bilateral investment treaty (BIT) that comes as close as possible to other investor-friendly US BITs; shortcomings in China's enforcement of arbitral and court judgments won by US parties in trade and investment disputes; and problems with protection of US intellectual property rights (IPR).

On IPR issues, assertions of US rights and interests are best combined with emphasis on Chinese obligations and interests. The obligations come primarily from the WTO and its intellectual property agreement. Infringement harms Chinese interests by deterring US firms in IP-intensive industries from investing in China, which undermines China's policies of promoting higher tech and research and development sectors. Infringement also contributes to the bilateral trade imbalance and resulting frictions, by undercutting sales of legitimate US trademarked, copyrighted, and patented goods in China and by generating sales of Chinese counterfeit goods in US and third-country markets.

U.S. policy must recognize, however, that IPR issues are likely to remain frustrating. US aims would be well served by a more fine-grained and disaggregating approach to IPR issues, distinguishing, for example, between violations that are exceedingly difficult for Chinese authorities to control, such as pirate CD factories and knock-off clothing production in small Chinese towns, and infringements that are more easily addressed or that have high per-infringement value, such as misappropriation of complex proprietary technology and inadequate protection, or recognition, of patents.

US policy also should resist larding well-founded complaints with exaggerated measures of the costs of piracy, such as those produced by multiplying the number of unauthorized units estimated to be sold in China by the price charged for legitimate units. If the near-term problems can be managed, much longer-run prospects are relatively promising. Chinese producers are beginning to generate valuable intellectual property, creating influential PRC constituencies for stronger IPR protection.

Spurred by government policy, China may move relatively quickly along the arc of shifting self-interest from piracy to protection, much as Taiwan did decades before and as the US itself did much earlier.

Product safety recently has become another contentious issue in US policy toward China.

Here too, the US has legitimate complaints about Chinese legal and regulatory failures. In this area as well, US policy should and already has appealed to China's interests, both in avoiding a calamitous collapse in foreign demand for Chinese goods and in avoiding harm to Chinese consumers that could sap political legitimacy, most notably in the case of melamine-tainted milk products.

Once again, US policy is likely to be more effective if it steers clear of moves that PRC critics can cast as validating beliefs that Washington employs double standards to unfairly target China or uses exaggerated safety concerns to limit Chinese exports.

On this front, US objectives will gain from investment in, and publicity for, technical and legal assistance to help China improve its product quality inspection and regulation systems.

On security issues, US policy faces relatively manageable challenges in the near term and benefits from a broad coincidence of American and Chinese aims and interests.

For now, cross-Strait relations are less a source of conflict in US-PRC relations than at any time in more than a decade. With Ma Ying-jeou having succeeded Chen Shui-bian as president in Taiwan, Washington can avoid the uncomfortable role it had to play in the later Chen years, reining in a Taiwanese president whose moves portended cross-Strait crises, deterring China from escalatory responses and trying to affirm support for Taiwanese democracy while criticizing Chen's destabilizing use of democratic processes.

The completion of long-stalled weapons sales to Taiwan in the closing months of the Bush administration removed a potentially serious irritant for the Obama team.

The US' legal and policy commitments to providing Taiwan with arms, the postponed question of sales of upgraded F-16 aircraft, and items deleted from the 2008 deal mean that weapons transfers will return as a source of friction.

But President Obama was spared having to decide between approving sales to Taiwan shortly after coming to office (and, in turn, enduring an early setback in US-PRC relations or having to offer mollifying concessions to Beijing) or deferring the long-pushed-for transaction (and thereby unduly raising Beijing's expectations, and fueling Taiwan's fears, about the new administration's approach to cross-Strait issues).

Beijing's shift under Hu to a policy that stresses preventing Taiwan independence over achieving unification, the rapid progress achieved on cross-Strait economic issues since Ma took office, the reestablishment of "*official unofficial*" engagement, and progress toward according Taiwan greater international space all bode well for Taiwan-related issues' not immediately becoming a problem in US-China relations.

Still, US policy should not be overly sanguine. Although suspicions have abated, some in Chinese policy circles hew to a zero-sum mentality that Washington will resist rapid and deep cross-Strait rapprochement. While progress is extremely unlikely to go too far and too fast for US interests and a sensible and effective US policy could do little to stop uncoerced integration, the Obama administration still needs to discredit this Chinese view lest otherwise unremarkable US policies and statements concerning Taiwan be over-interpreted in Beijing. Also, Taiwan's struggling economy and Ma's now-dwindling support have not yet forced his administration to accommodate the opposition Democratic Progressive Party's attacks on his cross-Strait policy, but that could change and bring a resurgence of Taiwan issues as a source of tension in US-China relations, if Ma and his ruling Kuomintang appear to face electoral trouble.

For Washington and Beijing, the often-frustrating Six-Party Talks are likely to remain part of the best among a bad set of choices for addressing North Korea's nuclear programs.

Supplementing that process with more direct US-North Korean engagement, as Obama and Secretary of State Clinton have suggested, could serve US interests and should not prove unacceptable to Beijing, given that China has secured for itself a major role in peninsular affairs, that Washington has promised to retain the Six-Party talks, and that such an initiative would continue the US' eschewal of forcible intervention or near-term regime change that China feared from the early Bush administration.

Although Washington and Beijing have different "*best case*" scenarios for a post-Kim Jong-Il North Korea, they have strong common interests in avoiding a disruptive transition and, short of that, a deeper crisis amid deteriorating relations between Pyongyang and the recently installed Lee Myung-bak administration in Seoul.

Other important aspects of US-China security relations do not require significant near-term changes in US policy. Greater transparency in China's ever-rising military spending and PLA doctrine must remain key goals of US policy, especially in an era when each side's principal scenario for major conflict is a US-China confrontation.

Washington should continue to make clear that it accepts China's legitimate interest in defense modernization, not least because the notion that the US wants to "*keep China down*" remains stubbornly potent in PRC policy debates.

Such Chinese beliefs can harm US interests, including by increasing friction over the US military presence along China's periphery. At the same time, US policy should continue to stress that assessments of whether Chinese military development is a threat will remain guided by the fact that China faces no major security threats and that the US remains an adequate provider, or leader among providers, of such military-dependent public goods as open sea lanes between East Asia and the Middle East.

On terrorism, Washington must pursue China's continued acquiescence in US policies, including in the UN Security Council. Obama's pledge to withdraw from Iraq and show greater respect for international law will help, given China's intractable criticism of the US presence in Iraq and most international interventions as impermissible breaches of the targeted state's sovereignty.

At the same time, the rising salience for US policy of terrorist groups in Pakistan's tribal areas and Iran's nuclear weapons program mean that the Obama administration must press Beijing to use its influence in Islamabad and Tehran and assuage Chinese concerns about the implications of US policies for PRC interests.

Under Obama, human rights (beyond religious freedom, which received relatively much attention under Bush) and democratic governance (defined in more complex terms than the Bush-era emphasis on democracy-as-elections) will regain a more significant place in US policy.

This presumably will, and should, include renewed focus on such issues in US policy toward China, even though that will create tension. While the strategy is clear and also serves Obama's agenda of rebuilding American soft power, tactics for dealing with China are a more subtle question.

Moves to forego torture, close Guantanamo and the like will benefit US human rights policy toward China because they weaken the long-developing PRC tendency to see the best defense as a good offense, rebuffing criticisms with indictments of US practices that suggest American hypocrisy.

The venerable practice of presidential and cabinet-level reiterations of US commitments to human rights and pressure on China for poor performance should be continued. To scale it back would risk sending the wrong message. Impact with audiences abroad, including in China, can gain from Obama's greater emphasis on human rights in US foreign policy and from Secretary Clinton's early engagement with such issues in China, dating to her participation in the Beijing-hosted 1995 UN Conference on Women.

Calling on China to adopt specific measures that closely follow US models should be avoided.

So too should empty threats of sanctions, reminiscent of the pre-WTO era annual review of China's human rights practices as a condition for renewing China's trade privileges. Such methods were never effective, fed Chinese nationalist backlash against attempts to foster China's "*peaceful evolution*" into a type of regime favored by Washington, and face dimming prospects as China grows more powerful, important to US policy, and insistent on receiving its due as a great power.

Recent statements from Hu, Wen and other leaders have made clear that highly prescriptive human rights-related policies, especially ones stressing western-style electoral democracy, will be rejected.

US policy on Tibet and Muslim minorities in Xinjiang should differentiate insistence on greater respect for human rights from support for independence. As reactions to pro-Tibet protests focused on the Olympic torch relay amply illustrated, such issues are neuralgic for a genuinely popular Chinese nationalism and risk undermining credibility within China for US efforts to promote human rights.

A promising approach will follow two principles :

- First, cast US policy, where possible, in terms of international human rights norms that the Chinese regime has officially accepted and which have gained ground since Beijing grudgingly endorsed the idea of universal human rights in the early 1990s. This undercuts dismissals of American human rights imperialism and exploits China's quests for acceptance as a "*normal*" country and greater soft power. China's shift to a more cooperative stance in addressing genocide in Sudan during the Bush administration's waning years suggests this approach's potential. Maintaining and increasing pressure on China to be a "*responsible stakeholder*," as former Deputy Secretary of State Zoellick put it, and not to support international norm-undermining governments is an approach that still holds untapped potential.

- Second, expand US support, both rhetorical and material, for human rights-promoting efforts that Beijing does not regard as threatening or even unwelcome.

These include such varied endeavors as promotion of civil society and "*access to justice*," technical support for local election processes, education and training for judges and lawyers, and legal and media reforms that can expose lower-level governmental abuses that the central authorities have an interest in reducing.

Perhaps the most significant change needed in US China policy is, simply, to make China, and the implications of China's rise, more central concerns in US foreign policy.

The Bush-era focus on the war on terror meant less attention to other issues, including the consequences of China's growing power, assertiveness and influence. While the US pressed an antiterrorism-dominated agenda, especially in Southeast Asia, China extended its influence by playing to regional states' greater concern with economic issues.

With Beijing's acquiescence in Washington's antiterrorism agenda looming so large among US China policy goals, and with economic issues crowding out other concerns in the bilateral relationship, Beijing could extract concessions and avoid scrutiny that its actions at home and abroad otherwise would have faced from Washington.

With American military resources and security thinking focused on terrorism and Southwest Asia, and with North Korea dominating US attention in East Asia, the U.S. became the incredible shrinking superpower, seemingly much less engaged, influential, and committed to East Asia and its friends in the region.

This benign (for Beijing) neglect is now waning. The international economic crisis underscores China's qualitatively increased economic clout. The shift in US foreign policy away from an overwhelming concentration on Iraq and terrorism creates more space for addressing security issues in East Asia and China's rising military prowess.

The Obama administration's promised greater foreign policy emphasis on human rights, climate change energy security, and pandemic diseases portends more attention to China, given China's outsized contribution to global problems in these areas and the new administration's opportunity and apparent intention to articulate common interests with China to address, at least, environment, energy and public health issues. Secretary Clinton's untraditional choice of China and other East Asian states for her first foreign trip, and the inclusion of the State Department's special envoy for climate change in her delegation, are promising signs.

So too are promised moves to raise other aspects of ministerial level dialogues to the stature of the regularly convened and generally successful Strategic Economic Dialogue of the late Bush years.

An early visit by President Obama to Beijing as part of a wider Asian trip would help as well, but it should not be undertaken before the groundwork has been laid for a summit that heralds substantive accomplishments.

Refocusing on a rising China and the region that increasingly lives in its shadow is only a first step. While US policy will have to respond to developments as they occur, effective and appropriate policy must heed basic features of the landscape. The arch-realist view has a grain of truth. Beijing's protestations notwithstanding, the rise of a great power does threaten disruption of established international regimes and friction with the previously dominant power, especially where the two powers have very different political systems and ideologies.

Still, US policy should not overestimate China's power, nor should it fear (or seek) the remote possibility that China will decline or lapse into chaos. On a per capita basis, China will remain poor for a very long time. Because of draconian population policies, it will go gray before it gets rich. Economic inequality, still-unreckoned costs from pollution and corruption and other ills are cracks in the foundation of China's power. China's much-touted soft power is less than it seems, reflecting lesser states' interest in economic relations with China and China as a counterbalance to an overweening US more than any desire for a Sinocentric order or any embrace of China's political-economic model.

More importantly, US policy must presume, correctly, that a rising China's agenda is not immutable, but can be affected by US policy.

Petulant, even aggressive, nationalism and revanchist authoritarianism are possible trajectories, rooted at least as much in China's weakness as in its new strength and made more likely if ill-chosen or poorly explained US policies fuel Chinese paranoia about an American plot to isolate China, keep it down, subject it to double standards or transform it. China's continuation as a basically pro-status quo power and evolution toward a more liberal and rule-of-law order are possible directions as well, and ones that can be promoted by US policies that accept China's legitimate ambitions for international influence, articulate a foundation in US interests that Beijing can understand and, where possible, invoke Beijing's freely chosen commitments and China's self-interest.

In this context, On 1 April 2009, President Barack Obama of the United States and President Hu Jintao of China met on the sidelines of the G20 Financial Summit in London, the United Kingdom. The two heads of state had an extensive exchange of views on U.S.-China relations and global issues of common interest, and reached the following points of agreement:

#### I. Toward Enhanced U.S.-China Relations

The two sides agreed to work together to build a positive, cooperative, and comprehensive U.S.-China relationship for the 21st century and to maintain and strengthen exchanges at all levels. President Hu Jintao invited President Obama to visit China in the second half of this year, and President Obama accepted the invitation with pleasure.

The two sides decided to establish the "*U.S.-China Strategic and Economic Dialogue*." U.S. Secretary of State Hillary Clinton and Chinese State Councilor Dai Bingguo will chair the "*Strategic Track*" and U.S. Secretary of the Treasury Timothy Geithner and Chinese Vice Premier Wang Qishan will chair the "*Economic Track*" of the Dialogue, each as special representatives of their respective presidents.

The two sides will hold the first round of the dialogue in Washington DC this summer. The two sides stated that they will continue to advance mutually beneficial cooperation in economics and trade through the mechanism of the high-level Joint Commission on Commerce and Trade.

The two sides agreed to further deepen mutually beneficial cooperation in a wide range of areas, including economy and trade, counterterrorism, law enforcement, science and technology, education, culture and health.

They also agreed to resume and expand consultations on non-proliferation and other international security topics. They welcomed further exchanges between the national legislatures, local authorities, academics, young people and other sectors. The two sides agreed to resume the human rights dialogue as soon as possible.

Both sides share a commitment to military-to-military relations and will work for their continued improvement and development. The two sides agreed that Admiral Gary Roughead, U.S. Chief of Naval Operations, will visit China upon invitation in April to attend events marking the 60th anniversary of the founding of the Navy of the Chinese People's Liberation Army. The U.S. looks forward to visits by senior Chinese military leaders this year.

The two sides agreed to maintain close communication and coordination and to work together for the settlement of conflicts and reduction of tensions that contribute to global and regional instability, including the denuclearization of the Korean Peninsula, the Iranian nuclear issue, Sudan humanitarian issues, and the situation in South Asia.

The two sides agreed to intensify policy dialogue and practical cooperation in energy, the environment and climate change building on the China-US Ten Year Energy and Environment Cooperation Framework, carry out active cooperation in energy efficiency, renewable energy, and clean energy technologies and work with other parties concerned for positive results at the Copenhagen conference.

## II. Strengthening Economic and Financial Cooperation

The two presidents discussed challenges facing the global economy and financial system.

They pledged that, as two major economies, the U.S. and China will work together, as well as with other countries, to help the world economy return to strong growth and to strengthen the international financial system so a crisis of this magnitude never happens again.

The two presidents welcomed the fiscal stimulus measures taken by the other, and agreed that these measures were already playing a stabilizing role for the global economy. They also agreed that strong financial systems were essential for restoring growth, and they welcomed the commitment of both countries to address issues in this area.

President Obama underlined the commitment of the United States to implement the American Recovery and Reinvestment Act and the Financial Stability Plan. He underscored that once recovery is firmly established, the United States will act to cut the U.S. fiscal deficit in half and bring the deficit down to a level that is sustainable.

President Hu emphasized China's commitment to strengthen and improve macroeconomic control and expand domestic demand, particularly consumer demand, to ensure sustainable growth, and ensure steady and relatively fast economic development.

The two presidents agreed the international financial institutions should have more resources to help emerging market and developing nations withstand the shortfall in capital, and the two countries will take actions toward this goal.

China and the United States agreed to work together to resolutely support global trade and investment flows that benefit all. To that end, they are committed to resist protectionism and ensure sound and stable U.S.-China trade relations.

President Hu and President Obama discussed regulatory and supervisory changes needed to reform and strengthen the global financial system, including regulatory standards. President Hu welcomed the recent U.S. announcement of a comprehensive financial regulatory reform agenda. President Obama welcomed the commitment of China to continue the development and reform of its financial system.

The Presidents agreed on the need for sweeping changes in the governance structure of international financial institutions. President Obama underscored that such changes were needed so that these organizations better reflect the growing weight of dynamic emerging market economies in the global system.

President Hu and President Obama concluded that continued close cooperation between the United States and China was critical at this time to maintain the health of the world economy and would remain so in the future.

They both recognized that as major economies, the United States and China have a need to work together, as well as with other countries, to promote the smooth functioning of the international financial system and the steady growth of the world economy.

To this end, the two sides will exchange views and intensify coordination and cooperation on global economic and financial issues, climate change and energy, and other important issues through the Strategic and Economic Dialogue that the two countries have decided to establish.

**N.ZAMMIT Ph.D**