

# WebMemo



Published by The Heritage Foundation

No. 3095  
January 10, 2011

## Hu Visit a Time to Press, Not Celebrate

*Dean Cheng and Derek Scissors, Ph.D.*

As President Barack Obama prepares to receive Chinese President Hu Jintao on a state visit to the U.S., expectations are muted. For Beijing, the summit is primarily intended to cap Hu's career as the PRC readies for the 2012 transition of power to Xi Jinping and Li Keqiang. A trip with no real issues would be in keeping with their goals of celebrating Hu and facilitating a smooth change of leadership.

For the United States, however, this outcome would represent a major mistake. The U.S. has a long list of concerns about Chinese policies, from North Korea to mercantilist economics. These concerns reflect fundamental conflicts of interest between our two countries, not misunderstandings to be settled by rolling out the red carpet and helping Hu achieve the appearance of a harmonious relationship.

Given Beijing's interest in an uncontroversial, cordial visit, President Obama has an opening to press President Hu to explicitly move forward in several key areas. The idea is not to demand huge concessions but to seek high-level and, critically, public commitments to better policies on certain issues. Bilateral coordination is needed and Chinese policy can feasibly improve concerning the economic role of the state, freedom of navigation in the western Pacific, and nuclear proliferation.

### Three Places to Start:

1. *President Obama Should Push for a Renewed Chinese Commitment to Market-Oriented Reform, Featuring a Reduced Role for State-Owned Enterprises in the Economy.* Heading toward the dual transition in 2012, the most politically dangerous elements of the Sino-American relationship are eco-

nomic. It is perceived in the U.S. that Chinese policies are causing serious harm to our economy, yet American economic retaliation could devastate the PRC's economy.

At the core of the problem is the role of the Chinese state. On the American side, the federal budget deficit has added considerably to the bilateral trade deficit, among other harms. Chinese state intervention is more extensive and intractable, incorporating the pegged exchange rate, the set of policies aimed at encouraging "indigenous innovation," and the compulsory purchasing of American bonds. Nearly all the factors that cause economic tension between the two countries stem from state action.

The best place for the U.S. to begin discussions is the extent of support given to state-owned enterprises in China. Centrally and provincially controlled enterprises receive overwhelming regulatory protection from competition, huge subsidized loans, free land, cut-price energy, and other forms of assistance.

These block American exports to China because state firms can produce below costs. They enable Chinese purchases of foreign assets by putting billions of dollars in the hands of state firms that could not earn them in a competitive market. They are also part and parcel of a strategy to force technology transfer.

This paper, in its entirety, can be found at:  
<http://report.heritage.org/wm3095>

Produced by the Asian Studies Center

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Obama Administration is not going to achieve a quick, dramatic decrease in state intervention. But it may be able to win a commitment to partly reverse the waxing of the state role that has occurred under Hu and Premier Wen Jiabao.

China can be toasted as now the second-largest economy in the world. In that vein, more state-owned enterprises should be able to compete freely without guaranteed market share or a slew of subsidies. A clear public statement by President Hu to this effect would be an excellent basis for what will be long-term discussions of how much and how fast the state role should be reduced. Progress on this front would be the single best way to address the widespread belief that China is an economic predator, not a partner.

**2. President Obama Should Make It Clear That the United States Will Defend Freedom of Navigation Throughout the Waters of the Western Pacific.** Another area of growing tension between the U.S. and the PRC is their fundamentally different views regarding freedom of the seas, especially in waters beyond the territorial limit of 12 nautical miles in the East China and South China Seas and in the Yellow Sea.

The U.S. defines maritime rights in these waters as qualitatively and quantitatively the same as those rights and freedoms applicable on the high seas.<sup>1</sup> The Chinese claims are a mix of idiosyncratic readings of the U.N. Convention on the Law of the Sea and direct assertions of sovereignty over islands, rocks, and waters far from its shores. Beijing holds the view that, although foreign naval forces may transit these waters, China has the right to restrict their activities while doing so—a perspective that is wholly antithetical to traditional concepts of freedom of navigation and the way an overwhelming number of nations interpret international law.

President Obama should make clear to President Hu that there is no principle more deeply engrained in American history and foreign policy than free-

dom of the seas. It is an absolutely non-negotiable “core” interest.

**3. President Obama Should Press the Chinese on Nuclear Proliferation Concerns, Especially Regarding Iran and North Korea.** With the exception of the perennial issue of Taiwan, there may be no greater divergence on national security concerns between Washington and Beijing than the question of nuclear proliferation by nations such as Iran and North Korea. The development of an Iranian nuclear capability is of concern to the United States and many of its allies and friends in the Middle East.

Of even greater concern is North Korea, which in recent months has assumed an increasingly aggressive stance, first by sinking a South Korean frigate and later in the shelling of Yeonpyeong Island by North Korean artillery batteries. The leadership in Pyongyang may feel that it has approval, or at least acquiescence, from the Chinese leadership because Beijing has done little to constrain them. Indeed, the Chinese protests regarding the *George Washington* carrier group are likely to have been interpreted by North Korea as supporting their actions, even if that was not the Chinese intent. It is essential that Beijing understand that further North Korean actions will trigger a firm U.S. and South Korean reaction and that it is in China’s interests to discourage North Korea from pursuing this dangerous path.

**Small but Vital Steps.** The upcoming summit is not a place for historic breakthroughs, but neither should it be a route back to business as usual. The PRC wants an elaborate, smooth, and globally recognized visit for Hu. The U.S. should take this opportunity to press for *public* Chinese commitments to a small set of important principles that will guide the bilateral relationship through what could be rough waters ahead.

—*Dean Cheng is Research Fellow in Chinese Political and Security Affairs and Derek Scissors, Ph.D., is Research Fellow in Asia Economic Policy in the Asian Studies Center at The Heritage Foundation.*

1. Scot Marciel, “Maritime Issues and Sovereignty Disputes in East Asia,” testimony before the Subcommittee on East Asian and Pacific Affairs, Committee on Foreign Relations, U.S. Senate, July 15, 2009, at <http://www.state.gov/p/eap/rls/rm/2009/07/126076.htm> (January 10, 2011).