

WebMemo



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Xi Jinping Visit an Opportunity to Finally Establish China Priorities

By Dean Cheng and Derek Scissors, Ph.D.

The man designated as the next General Secretary of the Chinese Communist Party, Xi Jinping, is due at the White House on February 14. Xi's scheduled term of office is 10 years. The last 10 years saw the Chinese economy, according to official statistics, more than quadruple in size. It also saw China catapult into becoming the principal geopolitical challenger to the U.S. in Asia. Xi will play a major part in what will happen over the next 10 years.

Xi is likely intent on re-familiarizing himself with the U.S. But his trip can also serve a larger purpose. Chinese officials often portray Sino-American relations as fundamentally positive and headed in the right direction. This may reflect a lack of information in a system that remains mostly closed. It definitely reflects Chinese satisfaction with current trends, an attitude not shared by most American policymakers.

Potential misunderstandings stemming from these different views are far more dangerous than they were 10 years ago. The Obama Administration should use Xi's visit to clarify American military, economic, and diplomatic priorities, highlighting the true level of tension as well as areas where national interests align. It might make for a less pleasant visit, but it would ultimately help to stabilize the relationship.

Establishing American Priorities. Previous meetings of top leaders have been unfocused and quickly revealed as unproductive.¹ But even the

most ardent "panda hunter" cannot place all the blame on China. The U.S. has failed to identify, communicate, and sustain clear priorities. Myriad interests insist on participating in China policy, including most Cabinet offices, Congress, the military, business, and human rights groups. Such a cacophony demands that Presidents establish priorities—something that has not been done.

American policymakers seek Chinese cooperation in further isolating North Korea, which borders the People's Republic of China (PRC) and with whom China has a unique relationship. They seek the same with respect to Iran, a major supplier of hydrocarbons to the PRC. The U.S. also wants to play a mediating role in the South China Sea, which the Chinese have termed a core interest, and expand ties with India. How countering Chinese influence in South Asia and the Middle East compares as a priority with seeking Chinese cooperation in areas where it has very different starting perspectives and interests is not clear.

Similarly, American defense policymakers have simultaneously expressed concern about China's

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growing military capabilities while acknowledging that the PRC needs to be able to defend increasingly global economic interests.² How the Chinese might reconcile legitimate defense expansion against acquiring capabilities that clearly threaten U.S. security interests in the Asia-Pacific has never been made explicit. American explication of “China’s true interests” is unlikely to gain any traction if it runs counter to how Chinese leaders see their own interests in their littoral waters, outer space, or cyberspace.

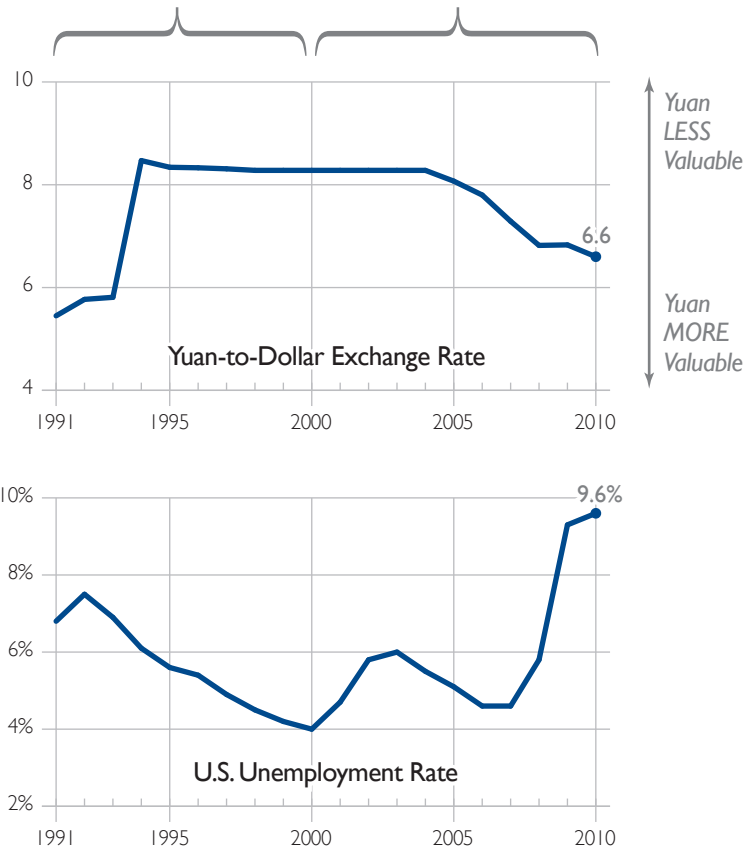
On the economy, the U.S. is obsessed with the exchange rate, though there is no evidence that it matters to American jobs. China’s predatory behavior with respect to intellectual property undermines American comparative advantage much more fundamentally than the value of the yuan does. Also far more important are anti-competitive practices within China, such as heavy subsidization of state-owned enterprises. These practices reserve the majority of the economy for a relatively small number of firms, blocking American exports to the PRC and other opportunities for American firms there. Given China’s size, the subsidies now also warp markets globally.³

The Administration has never explicitly supported punitive legislation concerning the yuan, but it has

A Weak Yuan Does Not Cause U.S. Unemployment

1991–2000: The yuan-to-dollar exchange rate falls and the yuan becomes undervalued. But U.S. unemployment declines.

2000–2010: The yuan-to-dollar exchange rate rises and the yuan becomes less undervalued. Yet U.S. unemployment rises.



Sources: X-Rates.com, Historic Exchange Rates, at <http://www.x-rates.com/cgi-bin/lookup.cgi> (June 6, 2011) and U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, at http://www.bls.gov/cps/prev_yrs.htm (June 6, 2011).

Chart 1 • WM 3486 heritage.org

1. The White House, Office of the Press Secretary, “U.S.–China Joint Statement,” January 19, 2011, at <http://www.whitehouse.gov/the-press-office/2011/01/19/us-china-joint-statement> (February 1, 2012).
2. Dean Cheng, “Sea Power and the Chinese State: China’s Maritime Ambitions,” Heritage Foundation *Backgrounder* No. 2576, July 11, 2011, at <http://www.heritage.org/research/reports/2011/07/sea-power-and-the-chinese-state-chinas-maritime-ambitions> (February 1, 2012).
3. Derek Scissors, “Chinese State-Owned Enterprises and U.S.–China Economic Relations,” testimony before the U.S.–China Economic and Security Review Commission, April 1, 2011, at <http://www.heritage.org/research/testimony/2011/04/chinese-state-owned-enterprises-and-us-china-economic-relations> (February 1, 2012).

repeatedly attacked Chinese currency policies—often incorrectly. More recently, senior officials have correctly noted the importance and harm of Chinese subsidies.⁴ It would be far better if the Administration explicitly stated that cutting subsidies should take priority over yuan appreciation. But the first step is a simple willingness to decide that one is more pressing than the other. The tactic of bringing half-a-dozen or more “critical” issues to the table has led, in what should not be a surprise, to satisfactory progress on none.

If the Obama Administration is unwilling or incapable of setting the full range of priorities, almost any clarification would nonetheless be an improvement. The ongoing failure to set clear American priorities will become progressively more harmful. The change in Chinese leadership is an excellent time to put the relationship on a less risky path.

Opening Doors. If the U.S. could finally offer concise, coherent positions, it would no doubt highlight many conflicts between American and Chinese interests. However, it would also promote truly helpful cooperation where it is possible.

Xi will not be empowered to offer (or interested in offering) much of anything substantial from the Chinese side during this visit. Most likely, he will mark the visit with an announcement of an investment in California, a grain purchase agreement in Iowa, and yet another bilateral energy cooperation deal in Washington itself. The first two will have only a temporary benefit, and the latter has consistently proven to be meaningless.

The Administration, however, should be fully prepared to respond to constructive signals on subsidies and intellectual property. On the security side, officials should keep an ear open for new initiatives in areas such as maritime security. This

is a matter of critical national interest to the U.S. It has been an area of growing tension as China clashes not only with the U.S. but also with Japan, Vietnam, the Philippines, and India outside of its territorial waters—in some cases far closer to its neighbors’ shores than its own. Ideally, Xi could signal a Chinese reversion to a Deng Xiaoping–like policy regarding maritime claims—i.e., demonstrably setting aside territorial disputes and engaging in joint development.

Beijing’s own power transition begins in October, and the Communist Party’s preference for stability will only grow stronger as 2012 wears on. It follows that the PRC might see Xi’s visit as an opportunity to minimize the potential for confrontation with its neighbors and/or with the U.S.

Long-Overdue Start. The Administration should have established clear and simple priorities for China relations far sooner than the beginning of the fourth year of the Obama presidency. Xi’s visit can be the beginning of the process of sharpening American policy if the U.S. takes the following steps:

- **The Administration should designate a single official to lead the U.S. side** during Xi’s visit and future high-level meetings. He or she should have authority to arbitrate among various positions and enforce decisions. The Vice President is the best choice.⁵ The visit is an opportunity to create the correct precedent for the American approach during Xi’s term.
- **Rather than yet another review of every issue under the sun, the U.S. should table at most three issues** in order to clearly signal to Xi American priorities for at least the next year.
- **The U.S. should ask for a single notable concession.** Given presidential prerogatives and

4. Julianna Goldman and Margaret Talev, “Obama Says ‘Enough’s Enough’ on China’s Undervalued Yuan as Hu Pushes Back,” Bloomberg, November 14, 2011, at <http://www.bloomberg.com/news/2011-11-14/obama-says-enough-s-enough-on-china-s-undervalued-yuan-as-hu-pushes-back.html> (February 1, 2012); Aaron Back, “U.S. Raps ‘Damaging’ China Policies,” *The Wall Street Journal*, January 28, 2012, at <http://online.wsj.com/article/SB10001424052970204573704577187330862272506.html> (February 1, 2012).

5. Derek Scissors, “U.S.–China Economic Dialogue: In Need of Tough Love,” Heritage Foundation *Backgrounder* No. 2200, October 21, 2008, at <http://www.heritage.org/research/reports/2008/10/us-china-economic-dialogue-in-need-of-tough-love> (February 1, 2012).

Beijing's capacity to effect changes, a foreign policy concession—such as cancelling the sale of new nuclear reactors to Pakistan⁶—might be preferable to an economic one.

- **The U.S.** should clearly indicate its top economic priority. Reducing subsidies to state-owned enterprises is the single best choice.
- **The U.S.** should similarly be prepared to respond to a viable Chinese proposal while avoiding trading current American action for future Chinese action. In the event of a worthwhile gesture from

Xi, one possibility is a presidential statement strongly opposing trade sanctions.

An Opportunity. Chinese political transitions are once-in-a-decade affairs. Over the past decade, American policy was inadequate to deal with China's rise. Xi's visit is the best time to start improving that record.

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6. Lisa Curtis and Derek Scissors, "The Limits of the Pakistan–China Alliance," Heritage Foundation *Backgrounder* No. 2641, January 19, 2012, at <http://www.heritage.org/research/reports/2012/01/the-limits-of-the-pakistan-china-alliance> (February 1, 2012).