

# ISAS Insights

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## China and the United States:

### Will the US visit by Xi Jinping make some difference?

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#### Abstract

China and the United States have become ever interdependent since then President Richard M. Nixon's visit to Beijing 40 years ago. In February 1972, Nixon met with Chairman Mao Zedong and set into motion a relationship that led to their interdependence. But the relationship lacks trust. Starting this fall, Beijing will begin the process of transferring political authority to a new generation of leaders led by Xi Jinping, currently the country's Vice-President. He will take over as the General Secretary of the Communist Party of China when the party meets for its five-yearly conclave later this year. In March 2013, he will become the country's president, replacing Hu Jintao in both positions. He will remain in office for ten years, from 2013 to 2023. During this time, Washington will complete the process of shifting its attention from Europe to the Pacific, a change in policy focus that was announced by President Barack Obama on several occasions in 2011.

The tone for this new relationship was set by Vice-President Xi during his recent visit to the United States. The United States' visit has become one of the rights of passage for the Chinese leadership. Ten years ago, Hu Jintao made a similar trip. At that time George W. Bush was US President. The American president was focused entirely on the Middle East preparing his country for the invasion of Iraq. His successor, Barack Obama, has different ambitions for America and these include focus on Asia, both the eastern and southern parts of

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the continent. This paper examines how Washington and Beijing are likely to work together as the leadership in China changes.

It will matter a great deal for Asia and South Asia as to how relations between the United States and China evolve over the next one decade, the period during which Xi is likely to lead his country. It would help South Asia enormously if this shift in policy stance adds to the economic strength of the Pacific region. It would hurt if the move produces even greater tension between the two superpowers.

## **Introduction**

It has become a part of the Chinese transfer of power tradition to have the heir-apparent visit the United States and meet the senior American leaders. This was done by Hu Jintao in 2002 when he was working his way towards assuming power in Beijing. Hu was identified for the leadership position by Deng Xiaoping. Even after the passing of the ‘great moderniser’ in China’s history, his wish was respected by the Communist Party of China (CPC). This was done again by Xi Jinping, the designated successor of President Hu.

According to a carefully orchestrated plan, Xi will take over the reins of the CPC in the fall of this year and in March 2013 he will become the President of the People’s Republic of China (PRC). This succession plan has raised a number of concerns as well as hope in both China and the world outside. The concern is whether the succession exercise will proceed as planned. Pitfalls have occurred before and could happen again. On occasions planned successions were overtaken by unexpected events. This happened in 1989 when the Tiananmen Square crisis led to the dismissal of Zhao Ziyang who had already succeeded Deng Xiaoping as the head of CPC. As far as hope is concerned, there are many outside China who would like to see Beijing work constructively in fashioning a new world economic and political order. This will have to be done in association with the United States, currently the world’s sole superpower.

## **Political Transition**

With the planned change in the Chinese leadership to be executed over a period of several months, there is hope that this process would be as orderly as was the one in 2002-03 when Hu Jintao took over the reins of power from Jiang Zemin, then PRC President and the General Secretary of CPC. The difference this time around is the political coming of age of the princelings, the direct descendants of the leaders from the time of the revolution. Xi Jinping is one such ‘princeling’. The son of Xi Zhongxun, one a vice-premier, who was banished to the countryside by Mao Zedong during the Cultural Revolution, Xi has deep associations within the party as well as with the military. Branded as the son of a counter-

revolutionary, the younger Xi spent seven years in a distant and poor village in the coal-producing province of Shaanxi. He was sent there when he was only 15 years old. 'I ate a lot of bitterness at that time', Xi wrote later. 'But my experience there had a profound influence on me and formed down-to-earth, striving character'.<sup>2</sup> Upon being rehabilitated, he quickly rose up the leadership ladder serving as the assistant to Geng Biao, China's defence minister and an old comrade of his father. This explains his good relations with the military. He was appointed governor of Fujian and the secretary of CPC in the prosperous province of Zhejiang in 2003. His elevation to vice-president and presumptive heir to President Hu came in 2007 a few months after he was sent to Shanghai to replace disgraced former party secretary Chen Lingyu, the most senior leader to be arrested for corruption in more than a decade. That experience may serve him well as he will have to tackle the serious questions being raised in the country about the rectitude of the senior leadership.

In the leadership shake-up which will see the retirement of seven out of the nine members of the current standing committee of the Communist Party's politburo, the assumption was that the vacated places will go to some of the second generation leaders. Among them is Bo Xilai, the son of Bo Yibo, a prominent leader of the revolutionary period and considered one of the 'eight elders' of the Communist Party. The younger Bo is currently the party chief of Chongqing, one in the group of autonomous municipalities that also includes Beijing, Shanghai and Tianjin. Some analysts divide the competition between two influential political camps made up mostly of princelings. 'One group is made up of the "old left" who lament the passing of Maoism, and the "new left" who want to restore some of Mao's more worker-friendly politics. This group extols Chongqing as a model of the way the country should be run'.<sup>3</sup> A bizarre incident involving the attempt to seek asylum by Wang Lijun, the deputy mayor of Chongqing and once the right hand man of Bo, in the United States consulate in Chengdu, the capital of Sichuan province, out of which Chongqing was carved out as an autonomous municipality, may have cast a shadow on the orderly process of leadership transition.

There is also a great deal of discussion about the direction the Chinese economy should take over the next decade or so. At the centre of this discussion is the role of the Chinese state-owned enterprises (SOEs). The move towards a capitalist economic system notwithstanding, these entities continue to dominate the Chinese economic landscape. The SOEs are responsible for granting the senior leaders the privileges that have come to be deeply resented by the population at large.

According to one reading of the situation in China, 'there is a longer-term debate about reforms going on even now, however. In recent months some Communist Party elites have privately debated the necessity of those reforms with renewed vigour; some of the discussion

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<sup>2</sup> Jamil Anderlini, 'The enigmatic princeling set to ascend the Chinese throne', *Financial Times*, 18 February 2012, p. 9.

<sup>3</sup> *The Economist*, 'China's princelings: Grappling in the dark', 18 February, 2012, p. 43.

has crept into public discourse, and there are a growing number of attacks by intellectual and former officials and what they call the “vested interests” that threaten to take China further down the road of crony capitalism.’<sup>4</sup> Some of the debate is focused on the role played by state-owned companies that now dominate several areas of the economy – banking, oil, aviation, construction, and telecommunications. Two former executives of the mammoth oil and machinery companies sit on the current nine-member Standing Committee of the CPC Politburo. These enterprises are in the lead as China projects its economic power in other parts of the world, including South Asia.

### **Issues of Concern for the United States**

Vice-President Xi Jinping arrived in Washington on 13 February 2012 at the start of a four-day visit to the United States. He visited Washington; Muscatine, a small town where he had gone as junior official to study pig-breeding and agriculture in the United States and finally to Los Angeles on the west coast from where he left for China on 17 February. ‘The visit came at a time of growing strategic distrust between China and the United States’, wrote Kenneth Lieberthal and Stapleton Roy, two China experts in a newspaper article. ‘The United States is far stronger and wealthier than China and will remain so for years. But the balance of resources and capabilities is shifting. Nowhere is that felt more acutely than in Asia where visions of future cast a long shadow over current perceptions around the region. As President Obama has stressed, Asia is the most vital region for sustained US prosperity’.<sup>5</sup> These two authors focused their attention on the growing military competition between Beijing and Washington in the Pacific. However, in the two days Xi spent in Washington meeting President Barack Obama, Vice-President Joe Biden and Defence Secretary Leon Panetta, the American leadership talked mostly about economic issues with some passing references to China’s human rights record.

For a number of years, undervaluation of the Chinese currency, Renminbi, was the main American concern. It began to be generally believed that it was because of the unfavourable rate of exchange between the Renminbi and the dollar that the Chinese had built up large trade surpluses with the United States. These in turn led to accumulation of large foreign exchange reserves by Beijing now estimated to be well over US\$3 trillion. In 2007, the surplus equalled 10 per cent of China’s gross domestic product. This was obviously not a sustainable level. In 2011, the surplus declined to 3 per cent of GDP. This was the result in part of the rising value of the Chinese currency. It increased by 12 per cent since June 2010 on inflation adjusted basis, and by 40 per cent since 2005. Even with this increase, some experts calculate that the Renminbi remains undervalued by five to 20 per cent relative to all

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<sup>4</sup> Michael Wines and Edward Wong, ‘In charged moment, China’s political heir tries introducing himself to U.S.’ *The New York Times*, 12 February 2012, p. 13.

<sup>5</sup> Kenneth Lieberthal and Stapleton Roy, ‘Defuse the distrust with Beijing’, *The Washington Post*, 13 February 2012, p. A17.

other currencies. ‘We are making progress, but it’s not sufficient,’ Lael Brainard, US Treasury Department Undersecretary for International Affairs, said in a newspaper interview, ‘And we will keep on pushing’. But the Chinese officials responsible for dealing with the value of the currency were critical of the fact that they had not been given credit for the efforts they had made over the last several years. Li Daokui, a member of the Chinese central bank’s monetary policy committee told the American press that the Renminbi was ‘probably the only emerging economy’s currency that has been rising against the US dollar’.<sup>6</sup> His reference was to Brazil and India that had significantly seen the depreciation of their currencies with respect to the US dollar.

A number of other American concerns were raised by officials in their meetings with Xi. These included in particular enforcement of laws around intellectual property rights and altering rules that compel foreign companies to transfer technology to Chinese counterparts or the Chinese government in exchange for doing business in China. While the concentration was on economic issues, the American side also raised its concerns about China’s display, in an aggressive way, of its ambitions in Asia. Defence Secretary Leon Panetta told a congressional hearing while Xi was still in Washington that the United States needed to make substantial new investments in weapons and technologies because rising powers were ‘testing international rules and relationships’.<sup>7</sup> In spite of budget cuts, Panetta indicated that the Pentagon was ‘protecting the capabilities needed to project power in the Asia-Pacific region’.

Vice-President Xi had come prepared to deal with this issue. In reply to the questions sent by The Washington Post and published by the newspaper, Xi, in obvious reference to the initiatives launched during President Obama’s third visit to Asia in November 2011, laid the blame for increasing the chances of a military confrontation between the two great powers on the United States. ‘What the Asia-Pacific countries care most is to maintain economic prosperity and build on the momentum of economic growth and regional cooperation. At a time when people long for peace, stability and development, to deliberately give prominence to the military security agenda, scale up military deployment and strengthen military alliances are not really what most countries in the [Asia-Pacific] region hope to see. The vast Pacific Ocean has ample space for China and the United States. We also hope that the United States will fully respect and accommodate the major interests of and legitimate concerns of Asia-Pacific region’, he wrote in one his replies to the questions posed by the newspaper.<sup>8</sup>

Xi Jinping delivered a strong message of his own on the second day of his stay in Washington. He told a lunch meeting organised jointly by the US-China Business Council and the National Committee on United States-China Relations that the two nations must

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<sup>6</sup> David Leonhardt, ‘As China’s currency rises, U.S. keeps up its pressure’, *The New York Times*, 16 February, 2012, p. A12.

<sup>7</sup> Geoff Dyer, ‘US defends shift in Asian military strategy amid criticism from China’, *Financial Times*, 15 February 2012, p. 1.

<sup>8</sup> *The Washington Post*, ‘View from Beijing: Chinese Vice President Xi Jinping: Transcript of answers on U.S.-China Relations’, 13 February 2012, p. A10.

respect each other's core interests. 'Mr. Xi's use of the term 'core interests' was intended to emphasise the existence of a line that the United States and other countries should not cross in discussions with China. The Chinese government's definition of the term has been evolving in recent years, but it has become standard in diplomatic conversations between China and the United States, and Chinese officials have been using it more assertively to push back against a variety of pressures from other nations. In particular 'core interests' has come to mean territorial integrity'.<sup>9</sup> The Chinese are troubled in particular by the western support for the dissidents in Tibet and by the indication by Washington that the United States will not stand idly by if China pushes its territorial claims in the Pacific Ocean.

### **Implications for Asia**

How the relations between the United States and China evolve once the political dust settles down in the two countries will have enormous implications for Asia – both the eastern and southern parts of the continent. Xi Jinping is unlikely to take any major initiative before he is formally confirmed as his country's president. That will not happen until March 2013. Since China has become a major issue in the process being followed by the Republican Party in the United States in choosing their candidate for the presidential election due in November 2012, President Obama's hands are similarly tied. It is also worth noting that President Obama's stance towards Asia has evolved considerably since he assumed office in January 2009. This evolution was clear in the three visits he made to the continent.

In the first tour in November 2009, he took note of the economic rise of China and invited Beijing to become a partner of Washington in leading the world economy towards a new global economic order. He proposed what in effect was a three-tier system, with G2 (Group of 2) consisting of the United States and China, in the lead, followed by G20 and followed, again, by the rest of the world. One part of this initiative was to hold annual strategic dialogue between the two countries. These are held alternatively in Washington and Beijing. However, the virtual surrender of America's preeminent position this approach implied was not appreciated by the conservatives in America. Obama listened to their objections and misgivings and changed his position.<sup>10</sup>

During his second visit to Asia in November 2010, President Obama changed his stance. He began the trip with a visit to India where he famously declared that India was not a rising economic power; it had already risen. He also promised America's support for India in its attempt to secure a permanent seat in the United Nations Security Council. The reason behind these pronouncements and promises was clear: the American leader now wanted India to

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<sup>9</sup> Edward Wong, 'Chinese Vice President urges U.S. to respect "core interests"' *The New York Times*, 16 February, 2012, p. A12.

<sup>10</sup> See Shahid Javed Burki, 'President Obama's first Asian visit' ISAS Brief no. 138, 9 November 2009, Institute of South Asian Studies, National University of Singapore.

partner with China to lead the rising continent of Asia. He was attempting to dilute China's power and also to pull back from the partnership offered to Beijing in his first visit to Asia.

Containment of China became the focus of attention in his third visit to the Asian continent in November 2011. On his way to Asia, President Obama stopped in Hawaii where he played host to the summit of the members of the Asia-Pacific Economic Cooperation (APEC) forum. He also announced the launch of another trade organisation, the Trans-Pacific Partnership, involving the countries on both sides of the Pacific but the initiative excluded China. He went to Australia and announced the establishment of a naval base in the northern part of the country that will host an American force of 2,500 Marines. In statements made during the visit he declared that America was a Pacific power and would have its presence felt in the area. In other words, the American president had made a 180-degree turn from the position taken in his first visit. Then the purpose was to include China; now China was excluded and challenged. While challenging this approach, Xi, during his visit to the United States now, sought to advance mutual cooperation and mutual respect as the basis of the relationship.

In this context, it is worth noting what several policy analysts are debating about the proper US approach to Asia. 'In Washington's internal debates over China policy, several schools of thought are vying for primacy', wrote Dan Twining of the German Marshall Foundation. 'One – call it the 'China first' school – believes the People's Republic of China is an ascendant superpower, whose new-found confidence is well-justified, and which America must do more to accommodate as the United States itself declines. In this view, America's existing position in Asia is unsustainable. Military surveillance in international waters near China is too provocative to continue indefinitely'. This was the approach taken by the American president during his first visit to the Asian continent. 'A second school of thought – call it the 'Asia first' school – reverses the China-first logic. It focuses on influencing Beijing's strategic choices by constructing a robust balance of power in the Indo-Pacific region that hedges against Chinese assertiveness – and reassures America's many friends and allies that we will not subordinate their acute concerns about China's growing strength out of deference to China's grievances, real or imagined. It acknowledges the pluralism of Asia, America's historic role as a Pacific power, and the central truth that none of Asia's great and regional powers is willing to allow Beijing to speak for the region'.<sup>11</sup>

This ambivalence towards China and its economic and military rise is reflected in several surveys of public opinion as well as those of opinion leaders. According to the latest China Daily-Gallup poll, 'about 71 per cent of respondents said strong bilateral relations were somewhat or very important. Opinion leaders were even more positive with 85 per cent saying strong relations between the two countries were important. Americans want more cooperation between the two countries in economic and energy issues, followed closely by cooperation in cultural, educational, scientific, political and diplomatic fields, according to

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<sup>11</sup> Dan Twining, 'A China policy primer for Xi Jinping's visit', *Foreign Policy*, 14 February, 2012.

the survey of 2,007 Americans and 250 opinion leaders conducted last December and released on 8 February 2012. However when asked whether China's growing influence in the world is good or bad, only 32 per cent of the general population and 28 per cent of opinion leaders saw it as a good development'.<sup>12</sup> China, in other words, is an important country, a rising power. However, it was not clear to the people and to the opinion makers what was the best way of dealing with Beijing. It was clear that the visit to the United States by Xi Jinping would not bring clarity to the situation. The Chinese leader's real audience was at home, in China, and not in the United States.

### **Implications for South Asia**

It will matter greatly which of these two schools of thought prevails in setting America's policy towards China. The 'China-first' school will ultimately focus on economic cooperation not only between the United States and China. It will create many opportunities for trade and other forms of economic cooperation for the world including the nations of South Asia.

Already China is now the largest trading partner for India, and with a free trade arrangement and a currency swap agreement with Islamabad in place, it is on the way to becoming Pakistan's largest trading partner. As the rate of economic growth slows down in the mature economies of Europe, North America and Japan, China's healthy increase in GDP will make it become the economic engine for the rest of Asia. Several large Chinese state-owned companies are playing important economic roles in South Asia. The Chinese banking sector has a growing presence in India and Pakistan. Several state-owned construction companies are building important infrastructure projects in Pakistan. These include the port at Gwadar and the Karakoram Highway, or KKH, which connects Pakistan with the western parts of China.<sup>13</sup>

If China has to face a military challenge from the United States as is implied by the 'Asia-first' school, it will seek to recruit some of the South Asian states to provide it with support. Beijing will attempt to work with Islamabad and possibly also Dhaka to manage what it will see as a Washington-inspired threat to its status as a rising global power. At the same time, Washington will try and recruit India to balance China. This will be unfortunate for the South Asian sub-continent. It will bring a new 'great game' to South Asia and complicate the relations of the countries with each other.

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<sup>12</sup> Chen Weihua, 'Hands across the sea', *China Daily*, 14 February 2012.

<sup>13</sup> Rajshree Jetley, 'Sino-Pakistan Strategic Entente: Implications for Regional Security', ISAS Working Paper No. 143, 14 February, 2012, Institute of South Asian Studies, Singapore.



## Conclusion

If there was a theme to the visit by Xi to the United States, it was ‘mutual cooperation for the good of the global economy’. It could have been ‘accommodating the military ambitions and interests of the two super powers’. Since much of the focus was on improving economic cooperation between the two countries, neither side took a confrontational approach towards the other. From all accounts, Vice-President Xi Jinping seems to have achieved the main objective of his visit to the United States. As was the case with the other trips made by other leaders in the past, Xi was attempting to establish his legitimacy as the new and undisputed leader of China. He seems to have reached that goal. As one observer, reading the blogs written for weibo, a popular website in China, noted in a dispatch from Beijing, ‘Chinese Vice-President Xi Jinping’s trip to the United States last week, covered in minute detail by the official media here, offered the first extended chance of the Chinese public to size up the man tipped to be their next leader. And judging from the initial reviews, Xi is proving a surprise hit with ordinary people...Xi seemed at ease around his American hosts, whether climbing into a tractor cab in Iowa or sitting tieless during the fourth quarter of Los Angeles Lakers game as he laughed alongside Mayor Antonio Villaraigosa. It is not an image Chinese are used to after the decade-long presidency of the stiff and formal-looking Hu Jintao, who often comes across in photos as a typical Communist Party bureaucrat. And many here noted the difference’.<sup>14</sup> Xi will be different. Whether he will chart a new course for China and how soon he will be able to do so will depend on how quickly he settles down in his new jobs – general secretary of the party and president of the republic.

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<sup>14</sup> Keith B. Richburg, ‘In China, warm reviews for the heir apparent on his U.S. tour’, *The Washington Post*, 19 February 2012, p. A16.