



# President Obama's Progressive China Policy

Assessing the U.S.-China relationship today and what lies ahead

By Nina Hachigian and Winny Chen May 2010

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## Introduction

On the eve of this year's Strategic and Economic Dialogue meeting between senior U.S. and Chinese government officials in Beijing, recent headlines highlight that the United States can work with China, that we must work with China, that we will always champion its own interests and values while doing so—and why these efforts can be exceedingly frustrating.

Consider first the apparent breakthrough on economic sanctions against Iran. Secretary of State Hillary Clinton announced that the U.N. Security Council, including China and Russia, were finally able to agree on a draft resolution that would place tougher sanctions on Iran for its illegal nuclear program. Then came the news that North Korea is to blame for the sinking of a South Korean warship earlier this month. While the international investigation was ongoing, North Korean dictator Kim Jong-Il had visited China and met with its top leadership, infuriating the South Koreans.

Irritating the Chinese (around the same time of the Dear Leader's trip) was the U.S. Department of State's tentative decision earlier this month to provide funding to a company linked to the Falun Gong movement outlawed in China—a company that has developed software that allows users to circumvent government blocks, including, potentially China's Great Firewall. Finally, highlighting an issue that is likely to dominate the Strategic and Economic Dialogue, or S&ED talks, while in China this week, U.S. Secretary of Commerce Gary Locke criticized Beijing's efforts to disadvantage U.S. businesses operating in China via new Chinese attempts to support “indigenous innovation” over foreign products and services.

So how are President Obama and top officials in his administration dealing with this complex reality? The administration has racked up important, concrete achievements in its dealings with China on key global issues even as it challenges its leadership to do more. Not surprisingly, the future agenda with China will remain full of difficult challenges of national importance to both countries, and with global implications.

Next week's second S&ED meeting, led by Secretary of State Clinton and Secretary of the Treasury Timothy Geithner, accompanied by some 200 U.S. officials, will no doubt reveal old and new points of agreement as well as fissures in bilateral relations. But the Obama administration should continue doing what it's been doing—engaging in steady and respectful negotiation and pressure, maximizing areas of cooperation, such as on clean energy, and making common cause with other countries around the region and the world to bring China along in areas of disagreement.

In the pages that follow, we'll detail why the Obama administration's approach has worked as well as it has, despite storylines to the contrary, and then offer some brief recommendations on how to proceed in the forthcoming S&ED meeting and beyond.

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## First days on the job

Upon his inauguration, President Obama reversed the trend of recent U.S. presidents since Ronald Reagan of initially “bashing” China then reverting to business as usual after several months. Instead, amid a raging global economic crisis, Obama administration officials reached out to China to establish a respectful working relationship focused on global challenges, both bilaterally and through international institutions, including the newly empowered Group of 20 developed and leading developing nations. There were no fireworks on President Obama's first visit to China in November last year, but rather some candid dialogue and some significant, though incremental, breakthroughs, including several new initiatives on clean energy.

But the first months of 2010 showed that this carefully calibrated approach did not come at the expense of asserting U.S. interests and American values when the two nations disagree. The president met with the Dalai Lama, announced a \$6.4 billion arms package to Taiwan, pushed China hard for consensus and action on Iran, spoke out against China's continued undervaluation of its currency, and

in words and deeds addressed human rights violations and limits on press and Internet freedom in the country.

China protested each of these actions, some vehemently. U.S. Ambassador to China Jon Huntsman put it bluntly: “We trampled on a couple of China’s core interests.” Nevertheless, relations are now back on track, and soon the second annual SE&D meeting will bring together hundreds of American and Chinese officials from across every major area of policy. Fifteen cabinet and agency heads from the United States are traveling to Beijing next week.

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### A progressive strategy

The Obama administration reoriented the U.S.-China relationship to focus on global problems. U.S. officials want to maximize cooperation with China on these shared challenges, often through international institutions, while working with friends and allies in Asia and elsewhere to maintain a peaceful and stable geopolitical environment.

In addition to this focus on strategic collaboration, other progressive principles of national security strategy also inform Obama’s China policy—U.S. leadership on global challenges, investing at home in U.S. economic strength, and promoting human rights.

At the broadest diplomatic level, renewed and respectful U.S. international leadership is central to U.S.-China strategy. Because our nation is once again working rigorously through the international system, and tackling global challenges head on, China can no longer point to U.S. inaction or active efforts to undermine international consensus—as was often the case during the Bush administration—as reason for China not to act itself.

But at home, too, the Obama administration’s investments in progressive domestic programs are also central to Obama’s approach to China. Bringing down soaring health care costs in our country through comprehensive health care reform will remove one of the reasons businesses often cite to explain why they offshore jobs to China where the costs of doing business are lower. Investments in clean energy will allow established and young U.S. companies alike to compete in the lucrative clean energy market and compete with Chinese companies for business around the globe. Bolstering America’s innovation economy by improving science and math education and investing in research, development, and commercialization

also will help to maintain our competitive advantage in the discovery and then production of higher value-added goods and services. This will enable us to compete more effectively with emerging economies such as China.

Leading by example is another piece of the administration's approach to China. President Obama's commitment to corral federal deficit spending strengthens his hand when pressing the Chinese to build the social safety nets and domestic social institutions necessary to boost more domestic-led consumption in China. Similarly, the Obama administration's repudiation of torture also increases our nation's credibility in human rights dialogues with China.

Looking ahead, U.S. domestic legislation that puts a price on carbon emissions would make U.S. entreaties to China to reduce its own emissions all the more forceful. That's why it's critical for the administration and congressional leaders to act on the climate change legislation now before Congress.

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## Progress is progress

A senior U.S. official describes U.S.-China relations as “a football game with no passing,” a messy ground game where progress is measured in inches, not touchdowns. Even so, the ball has been moving in the right direction thus far under the Obama administration. These gains are occurring in:

- Climate change and clean energy
- International economic cooperation
- Nuclear nonproliferation
- Combating pandemic diseases
- Asia-Pacific regional engagement
- Human rights

We discuss each of these in turn.

## Climate change and clean energy

In 2009, the Obama administration laid the foundation for long-term climate change and renewable energy cooperation with China. This is an area where the two nations share strong interests and where cooperation can benefit both considerably with the right framework and incentives. The July 2009 Memorandum

of Understanding to Enhance Cooperation on Climate Change, Energy, and the Environment, signed just after the first SE&D meeting, set the stage for high-level climate and clean energy cooperation between the United States and China.

The July MOU committed both countries to “respond vigorously to the challenges of energy security, climate change and environmental protection through ambitious domestic action and international cooperation,” and “establishes an ongoing dialogue between the United States and China on what both countries are doing to reduce emissions and to advance international climate negotiations ahead of the U.N. climate change conference in Copenhagen this December.” These commitments created the springboard for an ambitious package of joint initiatives announced in the joint statement at the November 2009 summit.

The November package of cooperative agreements included seven initiatives—among them partnerships, action plans, and research centers, such as the Clean Energy Research Center, a \$150 million initiative to facilitate joint research and development of clean energy technologies. This April, U.S. Energy Secretary Steven Chu announced the availability of \$37.5 million in funding for the project over the next five years, to be matched by U.S. grantees and \$75 million from the Chinese. The joint statement also included the U.S.-China Electric Vehicles Initiative, a U.S.-China shale gas initiative, and an agreement to promote cooperation on large-scale carbon capture-and-storage demonstration projects.

Following the joint statement, the U.S. Environmental Protection Agency and China’s National Development and Reform Commission signed a Memorandum of Cooperation. This initiative seeks to develop a robust, transparent, and accurate inventory of China’s greenhouse gas emissions, demonstrating both countries’ commitments to go beyond technological cooperation and addresses capacity building in carbon transparency.

The past year also saw progress in addressing climate change in the context of the international negotiations. From its first days, the Obama administration put global warming at the center of the China relationship, raising the issue in every significant bilateral meeting. Though disagreements behind the scenes were sharp, the U.N. climate summit in Copenhagen ended with a notable political accomplishment, thanks to the personal intervention of President Obama: all major developed and developing economies made national commitments to curb emissions and agreed to transparent reporting of domestic mitigation efforts.

China associated with the Copenhagen Accord in March. Further, China pledged—under substantial international pressure led by the United States—to reduce its energy intensity (the amount of energy used per unit of gross domestic product) by 40 percent to 45 percent by 2020, an ambitious target by any measure. For comparison, the U.S. target is 17 percent by 2020; the European Union’s is 20 percent to 30 percent; and India’s is 20 percent to 25 percent. It is very significant that Beijing has moved off its long-held position of refusing agree to any firm limits on its carbon emissions. Of course, given China’s economic growth, these targets are not adequate to prevent the 2 degrees of warming scientists tell us we must, but it’s an important start and farther than many thought China would go only one year ago.

### Economic rebalancing and the global economic crisis

The global economic crisis highlighted in clear terms the magnitude of shared interests among the American and Chinese people. As the crisis unfolded, both countries moved separately to stimulate demand at home and coordinate stabilizing measures abroad. China unveiled a massive \$586 billion stimulus package in November 2008 to bolster domestic demand and ward off a global collapse, just as the U.S. Congress developed what would become the American Recovery and Reinvestment Act of 2009, pumping \$787 billion into the American economy.

They were the two largest stimulus packages to come out of the global economic crisis and, importantly, while in the best interests of each country, reflected collaboration among American and Chinese officials and other G-20 nations. As Deputy Secretary of State James Steinberg has said “China was a key player in the international coordination of the financial crisis.”

China and the United States also made good on pledges at the G-20 Summit in London for an additional \$1.1 trillion in funds to strengthen and reform the global economy. As part of that, Washington offered about \$100 billion, and Beijing \$40 billion. G-20 nations also agreed to expand the Financial Stability Forum, an advisory group created in 1999 (and originally known as the Financial Stability Board) to promote global financial stability through information sharing and global collaboration. The new expanded regulatory body would include all members of the G-20, along with Spain and the European Commission, and serves to identify systemic financial problems and oversee efforts to resolve them.

When the G-20 met again in Pittsburgh in September 2009, they agreed to expedite reforms of international financial institutions to be more inclusive and representative of emerging economies such as China. Notably, U.S. Treasury Secretary Timothy Geithner endorsed China's efforts to secure greater voting rights in the International Monetary Fund, despite the reservations of some European nations. The G-20 countries also agreed to mutual assessments for the G-20 Framework for Strong, Sustainable and Balanced Growth. If successful, this "peer review" mechanism represents a creative step forward. It will provide an important vehicle by which China's macroeconomic plans—including its exchange rate policies--can be scrutinized in a multilateral setting.

### Nuclear nonproliferation

President Obama quickly and dramatically shifted U.S. policy on nuclear proliferation by signing the New START disarmament treaty with Russia, revealing the number of nuclear warheads in the U.S. arsenal, declining to pursue new types of nuclear weapons, and announcing the aspirational goal of a nuclear-free world. In taking these steps, he undercut Chinese ambivalence and other opposition to a stronger Nuclear Non-Proliferation Treaty regime that have been based on the argument that the two largest nuclear powers, the United States and Russia, were not committed to disarmament.

To be fair, China has come a very long way since the 1960s, when it vociferously upheld the right of every country to develop nuclear weapons, as a matter of sovereignty. Today, China is a member of nearly every major nonproliferation initiative and even an advocate for the cause. Nevertheless, China has been uneven in its willingness to strengthen the system, either by punishing offenders or making the regime more effective.

On the positive side of the ledger, in June 2009, two months after President Obama's Prague speech on nuclear weapons proliferation and weeks after another wave of provocative actions by North Korea, China announced its support for the U.N. Security Council Resolution 1874, which punished North Korea for its May nuclear test. In an unprecedented move, China then went a step further in enforcing the sanctions for the first time. China confiscated a shipment of vanadium, a metal used in defense and nuclear weapons, and shut down two bronze mines that Chinese corporations were helping to develop in North Korea.

Just this week in another encouraging step, China also apparently rejected North Korean requests for aid, arguing that China “can’t support North Korea beyond the framework of sanctions set by the United Nations Security Council.” In the wake of the news that North Korea did indeed torpedo a South Korean warship, China will have another opportunity to show its resolve in the face of North Korean aggression.

Similarly, China surprised the international community in November 2009 when it signed onto an International Atomic Energy Agency resolution condemning a secret Iranian uranium enrichment site at Qom. Though the resolution was non-binding and included no meaningful enforcement measures, China’s signature on the resolution struck a remarkable contrast to the country’s continuing reluctance to squeeze Iran, the supplier of 15 percent of China’s oil supply. And then this week, Secretary Clinton announced that it had reached a deal on further U.N. sanctions with Russia and China.

### Pandemic disease

The United States and China found themselves jointly facing another common threat in the swine flu pandemic of 2009. Following the first round of the S&ED process in July 2009, China and the United States agreed to institutionalize inter-agency health discussions. Both nations also agreed to hold regular exchanges on domestic health and medical system reforms in multistakeholder forums.

China and the United States followed up the agreement with another announcement in the joint statement following the November presidential summit. Both sides will collaborate further on joint research on the control of diseases, especially pandemics, and agreed to deepen cooperation on global public health issues, including the prevention, surveillance, reporting, and control of the A/H1N1 influenza, avian influenza, HIV/AIDS, tuberculosis, and malaria.

### Getting back in the Asia game

Reengagement in Asia marks another successful element of President Obama’s China strategy. During the administration’s first months, it sent the unequivocal message that the United States is “back” in Asia. On her first trip as secretary of state, Hillary Clinton flew across the Pacific, where she emphasized comprehensive partnerships with countries in the region—a shift the previous



administration's almost exclusive focus on terrorism. Secretary Clinton signed the Association of South East Asian Nations' Treaty of Amity and Cooperation, allowing for the United States to join the important 10-member group of dynamic and growing economies that sits astride the Indian and Pacific oceans. President Obama became the first U.S. president ever to attend an ASEAN meeting.

Just a few months later, based in part on his boyhood years spent in the region, President Obama declared himself "America's first Pacific president," promising regional partners from South Korea to Thailand "a new era of engagement with the world based on mutual interests and mutual respect."

The cross-strait relationship between China and Taiwan also entered a period of stability, driven by increased economic cooperation and interdependence. Though much of the credit goes to Taiwan President Ma Ying-jeou's cross-strait initiative, the Obama administration's adept maneuvering helped to create a stable context in which the United States was able to sell Taiwan a defensive arms package while maintaining a steady bilateral relationship with China. Indeed, for the first time in recent history, all three legs of the U.S.-China-Taiwan relationship are simultaneously characterized by stability.

## Human rights

The Obama administration's dual-pronged approach to human rights—leading by example publicly while pressing Chinese leaders rigorously behind closed doors—sent a clear signal of U.S. continued commitment to human rights. As some of its first acts in office, the Obama administration repudiated the use of torture, began the complicated process of closing the Guantanamo Bay detention facilities, and joined the U.N. Human Rights Council, among other steps to reverse Bush administration's policies that flew in the face of international rights norms.

The United States broached the issue of human rights at the first SE&D meeting, and then President Obama reaffirmed the importance of human dignity and freedom in American foreign policy. Contrary to media portrayals, on his trip to China the president was clear and forceful in his defense of human rights and democracy while still being respectful of his Chinese hosts. Speaking with students at a town hall meeting in Shanghai, the president spoke of the power of the Internet:

*The truth is that because in the United States information is free, and I have a lot of critics in the United States who can say all kinds of things about me, I actually think that that makes our democracy stronger and it makes me a better leader because it forces me to hear opinions that I don't want to hear.*

Days later, President Obama brought this same message to President Hu, with whom Obama urged for greater rights in China:

*I spoke to President Hu about America's bedrock beliefs that all men and women possess certain fundamental human rights. We do not believe these principles are unique to America, but rather they are universal rights and that they should be available to all peoples, to all ethnic and religious minorities. And our two countries agreed to continue to move this discussion forward in a human rights dialogue that is scheduled for early next year.*

The Obama administration followed up these commitments when the president met with the Dalai Lama at the White House in February, despite dire warnings from China. Most recently, the administration surprised the human rights community when it announced that the U.S.-China bilateral Human Rights Dialogue resumed for the first time in two years. At the meeting, U.S. representatives raised concerns around religious freedom in China, rule of law, and a number of individual human rights cases, including those of dissident Liu Xiaobo and lawyer Gao Zhisheng.

Finally, the State Department in May announced it will help finance an Internet service provider that specializes in helping the citizens of authoritarian countries access the Internet when their governments block access. The Global Internet Freedom Consortium helped Iranian dissidents communicate in the wake of the contested elections in that country. It is run by a spiritual group, the Falun Gong, that Beijing considers to be a dangerous cult and enemy of the state.

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## The future agenda

As much as was accomplished over the past year, there is still a long way to go on issues of great importance to the United States. Tactically, the Obama administration could do more on two fronts. The first is working with other nations to isolate China on international issues when necessary. On Iran, the administration has been doing this successfully, as discussed. But on climate, China has been able to maintain the support of much of the developing world despite the fact that those

countries share little in common with China's high-octane energy profile. Indeed, these poor nations stand to lose a great deal from global warming if major emitters such as China and India, along with the United States and the rest of the developed world, do not enact serious limits to greenhouse gas emissions.

The second front entails the Obama administration doing more to leverage China's desire for prestige in order to draw the nation deeper into supporting and strengthening the international architecture more than it is today. The status associated with being a global power is as important to China as it is to us. The administration should find ways to link opportunities for international accolades with greater international responsibility, offering leadership opportunities for China apart from groups that exclude the United States, such as the central Asian-focused Shanghai Cooperation Organization or the newly formed BRIC forum, comprised of Brazil, Russia, India, and China.

China's membership in the exclusive club of the G-20 is an excellent example of this. In fact, Washington and Beijing, along with other members, should together work to ensure that the G-20 itself can become an effective global forum. Now is the time to establish rules of the road that will ensure its relevance over time. The United States should find other chances for important international meetings be held in China, as with the Six Party Talks on North Korea's nuclear program.

The administration also should consider developing roadmaps by which eventually the headquarters of international organizations could be located in China. The prospect, as a hypothetical example, of the World Health Organization moving from Geneva to Beijing one day would be another sign to Beijing of being taken seriously in the international system. This would give Beijing a feeling of "ownership," and could also motivate China to take on additional responsibility and reform when it comes to global health.

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### Specific policy recommendations

The most efficient and immediate action the United States can take on clean energy is to move forward on implementation of the agreements struck this year with China. This means ensuring the programs have sufficient resources—financial capital, human capital, and bureaucratic support. The Obama administration should start planning now for assessments of the initiatives and track and report implementation transparently. These programs must be accompanied by continued efforts

in Congress and by the White House to pass domestic climate change legislation, which will be crucial to claiming a better position in international negotiations.

Internationally, the United States should continue working within the so called Major Economies Forum, consisting of government representatives from the world's the 17 largest economies, to address energy and climate change challenges and to support the U.N. negotiation process for a post-Kyoto treaty in Cancun, Mexico, later this year. The MEF takes China out of the much larger Group of 77 developing nations, where it is paired with very poor countries with low carbon footprints. Within the MEF, the United States should find incentives for the countries that have aligned themselves with China, such as India, Brazil, and South Africa, to support a more rigorous global deal.

As the United States continues working to press forward with the U.N. Framework Convention on Climate Change process, it should also collaborate with MEF member nations on bottom-up efforts to move countries to low-carbon economies. Initiatives such as the Clean Energy Ministerial, which “[brings] together ministers from major economies to collaborate on policies and programs that accelerate the world's transition to clean energy technologies,” can encourage implementation and scaling up of clean and renewable energy projects that will create the pathway for meeting national targets set at international negotiations like the UNFCCC.

The Obama administration should also take the international route to resolve global economic imbalances. To complement the bilateral discussion of exchange rates at the S&ED, the United States should continue to raise the currency issue in forums such as the G-20 and IMF where other states, including both developed countries such as France and developing countries such as Mexico and Indonesia, can also register their objections to China's undervalued currency. Equally important to more balanced growth is encouraging China to continue to boost domestic consumption through social programs such as universal health care. At the S&ED, Treasury officials have noted, they will discuss the fact that the American consumer is not going to play the role it once did as the major demand engine of the world economy. Domestic measures to rein in the U.S. budget deficit are, of course, another critical piece of the puzzle.

On the bilateral front, market access issues will become an increasing irritant in the relationship if not addressed. In particular, the United States must be clear that it objects to policies such as China's “indigenous innovation” program, which uses

China's market power to force foreign companies to license their latest technology. This and other policies aimed at creating "national champions" are quickly eroding political support for China among U.S. multinational corporations. These are the powerful voices that typically weigh in to stabilize relations and counsel against the imposition of trade sanctions. Beijing needs to realize that the effects of its market restrictions alongside accusations of cyberespionage and continuing concern on exchange rates are combining to create a particularly unfavorable environment for China on Capitol Hill.

On the flip side, the Obama administration should focus some energy in finding ways that—under appropriate guidelines—Chinese direct investment in the United States, which totaled \$5 billion last year, continues to create good American jobs.

When it comes to Iran, over the last several months, the Obama administration has maintained a clear two-track strategy on the Iranian nuclear program of both rigorously pursuing a diplomatic solution while making clear that the international community must punish Iran if serious attempts at diplomacy fail, as they have so far. The administration now has Russia's cooperation on the issue, thus blocking the usual tendency of China and Russia to join forces to stall progress on the U.N. Security Council when it comes to Iran.

As a result, China now appears to have signed on to a new package of sanctions, though the administration needs to continue to make clear that Iran is a top priority in the bilateral relationship.

China could be more helpful on the broader nonproliferation agenda as well. In the ongoing 2010 Review Conference of the Non-Proliferation Treaty, China has kept a low profile, showing itself to be wary that the review may bring international scrutiny to the country's continued missile modernization program, which critics have argued is both opaque and unnecessary, particularly in light of the U.S. and Russian efforts toward disarmament. The Obama administration should continue to make the case for Chinese support of a stronger NPT regime.

Finally, cybersecurity is now a serious area of tension in U.S.-China relations. As the rules for this global commons continue to catch up with the technology, the United States must act quickly to bolster its digital security and infrastructure at home. In addition, the Obama administration should continue to push public-private collaboration to encourage best security practices and promote actionable innovation in digital security. The administration must also remain candid and

forceful in its bilateral discussions with China that the cybersecurity problem will be treated with the utmost urgency and seriousness. Globally, the United States should continue working in good faith to establish a global treaty that would establish the rules of the road on cybersecurity.

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## Conclusion

The Obama administration is off to a productive start on the U.S.-China relationship in its first two years in office. But as each day passes, it only becomes more and more clear how difficult and critical our relationship with China is. Slow, steady progress should be our goal, recognizing where we differ and working to overcome those differences, recognizing where together we can act in the common interests of both nations and the global community, and always champion the values we hold dear.

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