



The Next Phase

CAP Trip Report and Findings on the Future
of U.S.-China Relations

November 2009

Center for American Progress



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Introduction and summary

A year and three months ago—on the eve of the Beijing Summer Olympics—CAP issued its comprehensive China strategy, “A Global Imperative: A Progressive Approach to U.S.-China Relations in the 21st Century.” The report recommended moving beyond the “engage and hedge” approach that has long characterized U.S. strategy and toward a pragmatic and progressive approach that recognizes the “urgency of our shared challenges” and “China’s growing importance to global problem-solving.” The CAP report was among the first, if not *the* first, major report to recommend putting climate and energy at the center of the U.S.-China relationship.

The Center built on this foundational report in September by sending a distinguished group of experts and officials to Beijing on a fact-finding mission to meet with ministers and high-level officials from the Chinese government. CAP President and CEO John Podesta led the delegation, which included Senator Thomas Daschle (D-SD), Ambassador Wendy Sherman, CAP Senior Vice President for National Security and International Policy Rudy deLeon, SEIU President Andy Stern, MIT Professor John Deutch, Chairman of Pritzker Realty Group Penny Pritzker, Los Angeles City Council President Eric Garcetti, Blue Engine Message and Media President Erik Smith, and Financial Crisis Inquiry Commission member Byron Georgiou. President of Fontheim International, LLC Claude Fontheim and CAP staffers Julian Wong, Sarah Miller, and Winny Chen were also in attendance to provide support for the trip. Nina Hachigian, Senior Fellow at CAP, was unable to make the trip but provided content for the meetings. Mr. Tung Chee Hwa, Chairman of the China-U.S. Exchange Foundation, and Mr. Yang Wenchang, President of the Chinese People’s Institute of Foreign Affairs, led Chinese experts and leaders in discussion sessions and were integral in organizing the trip.

The delegation met with officials and held a series of in-depth discussion sessions with renowned Chinese academics, businesspersons, religious leaders, and policy advisors on issues at the forefront U.S.-China relations, including climate change, economics, and national security.

Now, on the eve of President Barack Obama’s first trip to China, the Center again takes stock of its China strategy, as well as progress to date and yet to come in climate, economics, and security.



The CAP delegation meets with Mr. Huang Xingguo, Mayor of Tianjin

Source: CAP

Strategy redux

“A Global Imperative” urged the next president to get China strategy right from the very beginning of the relationship. It noted that “U.S.-China policy must go hand-in-hand with reinvigorating the international system of multilateral rules and institutions,” and recommended moving to a “risk management” approach to U.S.-China relations with seven key elements:

- Embed China, seeking its integration into the international system as a responsible, engaged, and respected stakeholder.
- Manage potential downside and upside risk, ensuring the United States has the capacities needed to handle a variety of scenarios that result from China’s strengths and weaknesses.
- Better understand China.
- Collaborate with China and the international community on common global challenges.
- Cooperate with other nations to influence China, strengthening U.S. relationships with global institutions and other nations.
- Re-establish U.S. moral authority, recognizing that our ability to lead by example remains our most powerful asset.
- Prepare the United States to compete globally by investing in a low-carbon economy, innovation, workers, and the next generation of American labor.

Fifteen months, a historic U.S. election, and a global economic meltdown later, these elements are all still useful parameters for U.S.-China policy. But we can now redirect the first prong of the strategy. China has become fully embedded, as a more recent CAP report, “China’s New Engagement in the International System,” shows. It has joined just about every international governmental organization it can and has increasingly brought its behavior into compliance with global rules and norms in many areas—though not in

all areas, most notably with regard to human rights. The key next step is persuading China to leverage its deep engagement toward solving global challenges and strengthening the international system. That is where the United States should direct its efforts.

A new administration

The Obama administration has begun to reframe the U.S.-China relationship along several key insights consistent with our earlier report:

- China and the United States have a complex and thick interdependence, which the economic crisis only further reinforced as Beijing and Washington closely coordinated their steps to address the crisis.
- We need to focus the bilateral relationship on key global challenges such as climate change and nuclear non-proliferation.
- There should be “strategic reassurance”—a term first coined by Deputy Secretary of State James Steinberg—in the relationship to make it clear to Beijing that the United States and its allies welcome a strong, prosperous China, while China reassures the rest of the world that its growing global role will not come at others’ expense.
- China policy must be part of U.S.-Asia policy as a whole, including our critical relationships with Japan, South Korea, India, Australia, and the ASEAN nations.

The mechanics of the bilateral relationship are well underway. June’s Strategic and Economic Dialogue, the central diplomatic mechanism for the relationship, brought together hundreds of U.S. and Chinese officials, many who had never before met. Military to military dialogue resumed. New counterterror talks began. Presidents Hu and Obama have met three times, and the first state visit is in a few short days.

A new phase in U.S.-China relations?

A senior Chinese official expressed his hope to the CAP delegation that President Obama’s upcoming trip would be “historic,” comparing it to Nixon’s visit in 1972. Thirty years after the United States and China normalized relations in 1979, are we ready for the next 30-year phase of the U.S.-China relationship?

President Obama has a new vision for U.S. foreign policy, one that recognizes that cooperation with pivotal powers such as China is critical to addressing our pressing global challenges. The president averred in his opening remarks at the first Strategic and

Economic Dialogue, “no one nation can meet the challenges of the 21st century on its own, nor effectively advance its interests in isolation. It is this fundamental truth that compels us to cooperate.”

China’s capacity to address those challenges is meanwhile growing greater by the day. If we are entering a new phase, it will be one in which the U.S.-China relationship is judged on its ability to channel the energy of these two global powerhouses to solve problems such as global warming, nuclear proliferation, poverty, and pandemic disease. As John Podesta testified before the House Subcommittee on Asia, Pacific, and the Global Environment in September, “in many cases, genuine strategic collaboration with China will be necessary... we need a whole community of nations working together to address the serious problems that plague us—both countries’ commitment to solving global threats is pivotal.”

Whether we are entering a new phase and whether the president’s trip will live up to high expectations will therefore depend on making progress toward shared global challenges—an important metric for the success of the bilateral relationship. And that, in turn, will depend on China’s choices, especially on climate change and its relationship with Iran.

Real challenges to this vision remain, not least of which is that China is not progressing toward international norms on governance and individual rights nearly to the degree that it has on proliferation or global health. It continues to protect problematic regimes from Zimbabwe to Myanmar. And the opacity of its military buildup is causing some anxiety in the region.

Yet there is both a growing capacity and demand for a newly effective bilateral relationship, driven by the White House’s new foreign policy vision and China’s deep engagement in international regimes on some important issues.

Climate change and the energy opportunity

Chinese leaders in virtually all of the CAP delegation’s conversations in Beijing highlighted energy and climate change as top issues of mutual interest, even when such discussions focused on other topics such as global economics or military affairs. The Chinese continued to adhere to the principle of “common but differentiated responsibilities” and the expectation that developed countries should take the lead on climate action due to their historical responsibility. Yet as the CAP delegation expressed, the science of climate change requires all major economies to do more—including the United States and China.



CAP President and CEO John D. Podesta greets State Councilor Dai Bingguo

Source: CAP

The enthusiasm for bilateral collaboration on clean energy was unequivocal. Both sides recognized that the scale of the global climate challenge requires a much broader, deeper effort to quickly scale up the deployment of low-carbon solutions. A consensus on specific low-carbon energy sectors ripe for collaboration included energy conservation and efficiency, particularly for buildings; energy storage; smart grid; advanced coal, including carbon capture and storage; advanced nuclear; and renewable energy, particularly large-scale solar thermal.

There was also a sense that clean-energy cooperation must extend beyond technological development in order to achieve comprehensive solutions. Important areas of cooperation that members of both delegations identified comprise energy and climate analytical modeling tools, exchange of best practices in creating greenhouse gas inventories and establishing mechanisms for measuring, reporting, and verifying greenhouse gas emissions.

A concrete recommendation flowing from this dialogue was the establishment of a joint task force that would bring together experts from policy and technical realms to explore in a sector-specific manner the needs, barriers, and opportunities for low-carbon technology cooperation, including issues relating to trade and market-access barriers.

Balanced and sustained global economic growth

Chinese and American delegates agreed that real efforts must be made to bring the two countries' economies into a healthier balance. Moving from crisis mode to sustainable growth patterns will require a consistent, multi-pronged effort on the part of U.S. officials to encourage difficult policy shifts both in China and at home.

The Chinese delegation expressed four key priorities for rebalancing China's economy and contributing to stable global growth: increasing domestic consumption; improving private investment; expanding employment opportunities; and avoiding excess production capacity. The Americans agreed that increasing domestic consumption is key both to China's ability to make a full recovery and to rebalance its economy away from the current export-oriented model. The Chinese delegation responded that the global recovery would be led by the restoration of American consumption, rather than an increase among Chinese households in the near term.

An immediate priority both in China and the United States is job creation. A critical issue facing the United States is where the next generation of jobs will come from. The Chinese side underscored the challenges they face in providing sufficient employment opportunities for an excess labor force of 220 million in rural China. Heavy infrastructure investments in both the American and Chinese stimulus packages aim to staunch job loss resulting from the economic downturn, but broadening employment opportunities pose a deep challenge to both the United States and China going forward.

Both sides registered concern over the future of financial regulation and U.S. deficits, but recognized the Obama administration's success in preventing a deeper crisis. Podesta reiterated the need to work for balanced growth and noted that health care reform—a cornerstone of President Obama's domestic agenda—will play a large role in America's economic future. At the same time, China must be sensitive to the scale of the crisis and pace of recovery. It is important for China's leaders to move beyond voicing concerns over the dollar, given the severity of the U.S. unemployment outlook, and take into account the broader U.S. economic situation.

A final issue under discussion was the need to reform international financial governance structures. Chinese and U.S. delegates agreed that the current financial architecture is not ready to meet the needs of the 21st century global economy. The economic crisis has highlighted the need to reconstitute the economic order in a way that includes a larger role for countries such as China that are key economic players on the international stage. And frequent communication is necessary to ensure China and the United States exchange important macroeconomic information regularly and avoid misunderstandings as the recovery progresses.

National security

The United States and China must find a way to continue expanding shared national security interests while tackling the many difficult, but not insurmountable, differences in the relationship. China has come a long way in its responsibility to international peace and security. It is a relatively new global stakeholder, but one that has quickly stepped up its full cooperation on issues such as non-proliferation and North Korea, where it has been an engaged and constructive partner. China has yet to come in line with the international

The CAP and Chinese delegations discuss the next phase of U.S.-China relations in the first of three discussion sessions.

Source: CAP



community in areas where its energy and economic interests trump international concerns, such as in Iran. The Chinese remain declaratively committed to denuclearization, but they maintain that the Iran issue remains one primarily between Tehran and the West.

A wide variety of officials on the Chinese side agreed with American assessments that the military-to-military relationship lags far behind progress made in other areas, such as economic cooperation. It is a relationship still fraught with deep suspicion and strategic mistrust and prone to a “start-stop-restart” pattern. Addressing the mutual distrust in the U.S.-China relationship should be a high priority.

Track II dialogue—unofficial dialogue between non-governmental officials—is an important way to enhance dialogue between the two countries. A Track II dialogue aimed at increasing communication and familiarity, and articulating the minimum levels of defense that are necessary for both countries to maintain security, is one particularly important avenue to develop. Track II dialogues could prove very useful in addressing a range of important issues, including naval operational issues and protocols, such as landing procedures, radio frequencies, tactical procedures, and crisis management; non-traditional security matters; regional missile defense; expanding military-to-military programs; and cyber-security.

American and Chinese officials on the trip were heartened by the progress that the PRC and Taiwan have made on the cross-Strait issue, which has dampened the prospects for conflict in one of the few remaining flashpoints ripe for a great power war in the 21st century. Yet military developments on each side of the Strait have not kept pace with economic progress, and China must make more progress on addressing the ballistic missile build-up aimed across the Taiwan Strait.

Human rights will continue to remain a priority and an essential value of U.S. foreign policy. China has made notable progress in the full-range of human rights, notably on raising the standard of living in the country. But human and civil rights abuses continue to color the reports coming from Tibet and Xinjiang, as well as from Chinese legal and human rights communities. The United States and China must continue the dialogue to maintain the highest standard of human rights. Freedom and human rights will continue to concern Americans deeply. If the United States and China are going to be real partners, they must find a way to have candid, meaningful, and productive discussion on human rights.

Energy and climate change

Recommendations

- Encourage collaborative efforts to scale up the deployment of low-carbon solutions, including energy conservation and efficiency, particularly for buildings; energy storage; smart grid; advanced coal, including carbon capture and storage; advanced nuclear; and renewable energy, particularly large-scale solar thermal.
- Establish a joint task force of policy and technical experts to explore, in a sector-specific manner, the needs, barriers, and opportunities for low-carbon technology cooperation. This should include collaboration on specific technology transfer issues and clean-energy technology trade reform and investment policy, such as reviewing high tariffs for clean-energy technology exports and restrictions on foreign direct investment in solar or wind projects.

“A Global Imperative” recommended that the new administration elevate climate change and energy to the top of the U.S.-China policy agenda. A global recession has brought into focus the value of “green recovery,” and both countries’ economic stimulus packages contain significant allocations to clean energy and sustainable development-related infrastructure. We have witnessed in recent years the intensification of China’s energy and environmental targets in its 11th Five-Year Plan, while the new Obama administration has demonstrated resolve in overturning eight years of inaction on climate change through a series of executive and legislative actions to control carbon emissions. The time has never been so ripe for clean-energy cooperation between the United States and China.

The Obama administration has started a new chapter of U.S. multilateralism by putting energy and climate change at the top of its diplomatic agenda in its engagement with China and other countries. Climate change and energy became an obvious avenue of collaboration emerging out of bilateral discussions during State Secretary Hillary Clinton’s visit in February, the U.S. congressional delegation visit led by Nancy Pelosi in May, and Energy Secretary Steve Chu and Commerce Secretary Gary Locke’s visit in July. The visit by

Secretaries Chu and Locke, in particular, yielded the announcement of a plan to establish a \$15 million joint research center on clean energy that would focus on building efficiency; advanced coal technologies, including carbon capture and storage; and electric vehicles.

One of the more concrete outcomes of the U.S.-China Strategic and Economic Dialogue this July was a memorandum of understanding to enhance cooperation on climate change, energy, and environment. The MOU emphasizes the commitment by both countries to reach and implement a successful international agreement on climate change and also sets up the expectation of ongoing consultations between both sides to address climate change in a collaborative manner.¹

Strikingly our Chinese counterparts highlighted energy and climate change in virtually all our conversations in Beijing as one of the top issues of mutual interest—even when such discussions focused on other topics such as the global economy or military affairs.

We were reminded of China’s international climate negotiation position, its adherence to the principle of “common but differentiated responsibilities” and expectation that developed countries would take the lead on climate action on account of historical responsibility, as well as its position that developed countries should provide technological and financial assistance to developing countries for their respective climate mitigation and adaptation activities.

The CAP delegates acknowledged China’s tremendous progress on energy efficiency, renewable energy, and other sustainable development efforts, but also emphasized that the science of climate change requires all major economies to do more, including the United States and China. We conveyed in particular the need for China to reflect its domestic targets and commitments to clean energy in an international agreement in a way that is measurable, reportable, and verifiable.

It is unclear whether Congress will be able to deliver a meaningful piece of climate legislation by December when the U.N. climate conference in Copenhagen is held to negotiate a successor international climate treaty to the Kyoto Protocol, which expires in 2012. But the U.S. delegation emphasized that President Obama is committed to climate change and clean energy both domestically and abroad. Examples of how the United States is reengaging with the climate issue include the American Recovery and Reinvestment Act’s



John Deutch responds during a discussion on technology transfer and climate change.

Source: CAP

substantial allocations to clean-energy development, the administrative action to raise automobile fuel economy, and the meetings between the world's major economies to build momentum toward a successful global solution at Copenhagen through the Major Economies Forum.

With respect to U.S. domestic legislation, we made clear that progressives are doing all they can to push the Senate to pass a comprehensive energy and climate bill by December, but also took time to clarify that there is public misunderstanding regarding the range of carbon emissions reductions delivered by the House-passed energy and climate bill. The bill's cap-and-trade provision would reduce carbon emissions by 17 percent by 2020 from 2005 levels, but this could be much higher in reality. A fuller accounting by one study of the supplementary and complementary portions of the entire bill, including international forestry provisions and energy efficiency performance standards, reveals a potential to reduce emissions by up to 23 percent from 1990 levels.²

That said, both State Councilor Dai Bingguo and Vice-Chairman Xie Zhenhua of the National Development and Reform Commission took pains to explain that despite China's development challenges—150 million citizens still subsist at or below the poverty level—China is committed to avoiding a repetition of the conventional development model of “pollution first, clean up second.” Dai and Xie reviewed China's ongoing efforts in energy efficiency, renewable energy, and reforestation,³ and reiterated its desire to peak its carbon emissions “as early as possible.”⁴ The CAP delegation also received a preview of Beijing's future efforts—both Dai and Xie told us that China would seek to reduce carbon emissions per unit of its gross domestic product in their next five-year plan, a goal later confirmed publicly by President Hu Jintao at the U.N. climate summit on September 22 in New York.

There is clear momentum for climate action on both sides of the Pacific. The enthusiasm for bilateral collaboration on clean energy was unequivocal in our discussions. Collaborative efforts that result in the accelerated deployment of low-carbon solutions, enhance energy security, reduce the effects of climate change, protect public health, and create a new engine for job and export growth for both sides underpins the clear logic for elevating climate cooperation to the top of our bilateral diplomatic agenda. The only remaining question is what form such collaboration should take.

Clean-energy technology collaboration was the centerpiece of our discussions with a distinguished panel of energy technology experts on the first day of our trip. The Chinese panel was chaired by Xu Kuangdi, president of the Chinese Academy of Engineering and former mayor of Shanghai. Participants included Zhou Dadi, senior advisor and researcher at the Energy Research Institute of the NDRC; Zhang Xiliang, director of the Institute of Energy, Environment and Economy at Tsinghua University; and Ding Yihui, academician at the Chinese Academy of Sciences and advisor on climate change for the China Meteorological Administration.



The CAP delegation boards the Beijing-Tianjin high-speed Intercity Railway.

Source: CAP

The panel acknowledged existing efforts on clean-energy cooperation, such as joint research on low-carbon technologies between Tsinghua University and the Massachusetts Institute of Technology, Lawrence Berkeley National Laboratory's work in China on industrial and building energy efficiency, and shared efforts between the China Meteorological Administration and National Oceanic and Atmospheric Administration on assessing regional climate change impacts. Yet there was also recognition that the scale of the global climate challenge requires a much broader and deeper effort to quickly scale up the deployment of low-carbon solutions and collaborate in low-carbon energy sectors such as energy conservation and efficiency, particularly for buildings; energy storage; smart grid; advanced coal, including carbon capture and storage; advanced nuclear; and renewable energy, particularly large-scale solar thermal.

Our discussions on how technology cooperation in the above areas should proceed on a practical basis revealed a need to study more thoroughly what is meant by "technology transfer" in these sectors, and address issues relating to market access for clean-energy technologies, such as high tariffs for clean-energy technology exports or restrictions on foreign direct investment in solar or wind projects.

A concrete recommendation flowing from this dialogue was the establishment of a joint task force that would bring together experts from the policy and technical realms to explore in a sector-specific manner the needs, barriers, and opportunities for low-carbon technology cooperation, including issues relating to trade and market-access barriers. This work has already begun, in a sense. CAP released this month a joint report with the Asia Society detailing a roadmap for how the United States and China can collaborate on the joint development of carbon capture and storage. Similar efforts need to be made for other clean-energy sectors.

There was also a sense that clean-energy cooperation must extend beyond technological development in order to achieve comprehensive solutions. Members of both delegations identified energy and climate analytical modeling tools as an important area for collaboration.

Both countries are moving toward carbon management programs in their own ways, and it will be productive to exchange best practices in creating greenhouse gas inventories and establishing mechanisms for measuring, reporting, and verifying greenhouse gas emissions. Existing collaboration efforts between the U.S. Environmental Protection Agency and National Reform and Development Commission should be encouraged and enhanced.

As a final note, the militaries of both countries have already started to pay attention to climate change as a non-traditional threat to national security. Disaster relief and related climate change adaptation issues can be an interesting plank of military-to-military cooperation for both countries.

Balanced and sustained global economic growth

Observations

- The United States and China should move away from the spender-saver model that characterized the relationship prior to the financial crisis. Moving toward sustainable growth will require a consistent, multi-pronged effort on the part of U.S. officials to encourage difficult policy shifts in China and at home.
- China's economic weight in the international system results in wider responsibilities than those of most other developing countries. The United States must adhere to an overall approach that will aid and accelerate China's ability to act as a responsible stakeholder in the international system.
- Both the Chinese and American delegations remain concerned over the future of financial regulation and U.S. deficits.
- The existing financial architecture is not ready to meet the needs of the 21st century global economy and financial system. We must reconstitute the economic order to include a larger role for countries such as China that are key economic players on the international stage.

The world has dramatically changed since CAP released its comprehensive China report in August 2008, when the global economy was only weeks away from plunging into full-blown economic and financial crisis. The far-reaching turmoil that followed froze credit markets, sent unemployment rates skyward, drove down equity indices, led governments to make emergency adjustments to fiscal and monetary policy, and required aggressive intervention on the part of international financial institutions. The crisis's intensity brightly illuminated China and the United States' deep and direct economic interdependence and, as Vice Foreign Minister He Yafei noted during remarks to our delegation, gave fresh prominence to the unique relationship between the United States and China in the world economy.

The economic and financial crisis occurred alongside another major turning point in U.S.-China relations—the election of President Obama. The new administration’s approach to the United States’ economic relationship with China has thus far followed the broad contours of CAP’s prior set of recommendations, which remain relevant despite the past year’s extraordinary events. President Obama signaled the administration’s willingness to engage in frequent high-level dialogue during his first days in office, and four cabinet secretaries—Clinton, Geithner, Chu, and Locke—visited Beijing within the first six months of their tenure. This helped maximize the Chinese and U.S. governments’ capacity to communicate and cooperate during exceptional economic circumstances, and such dialogue should be expanded, at various levels, as the economy normalizes.

The American and Chinese delegations recognized that the evolution of our post-crisis economies has enormous implications for standards of living within each country and the trajectory of global growth. As our 2008 report pointed out—and recent events have proven—the China-as-saver and America-as-spender dynamic is unsustainable and short-sighted. China did not experience a financial crisis on the same scale as the United States and Europe, but its export-driven economy was shaken by the sudden collapse in global—and especially American—demand.

Our conversations in Beijing found little dispute about the danger of this dynamic on both sides. Both parties agreed that the United States and China must make real efforts to bring our economies into a healthier balance, rather than slipping back toward old habits. Moving from crisis mode to sustainable growth patterns will require a consistent, multi-pronged effort on the part of U.S. officials to encourage difficult policy shifts in China and at home.

The United States must also adhere to an overall approach that will aid and accelerate China’s ability to act as a responsible stakeholder in the international system. The financial crisis provided Beijing with an opportunity to act quickly and responsibly to prevent the global downturn from worsening. They did so in November 2008 by passing an expansive \$586 billion stimulus package—which was equal to 14 percent of GDP—and easing monetary policy, although there is a legitimate concern that these steps are now contributing to dangerous asset bubbles.

U.S.-China economic relations are certainly not without flashpoints—notably currency, the trade deficit, and discrete trade conflicts, as the Minister of Commerce made clear during discussions. But Beijing’s pragmatic response to the financial and economic crisis and willingness to engage in frequent dialogue suggests there is space to craft a healthy, stable economic relationship.



Vice Foreign Minister He Yafei gives the keynote address at a luncheon with the CAP delegation.

Source: CAP

As Senator Tom Daschle noted during one of our discussions, the only certainty in the world today may be that nations will become more interdependent as time goes on. Economic globalization is central to this phenomenon, but the major challenges facing the international system—climate change, terrorism, pandemic disease—also mean that countries will increasingly depend on each other to act responsibly and in concert. A mutually advantageous economic relationship between China and the United States is a necessary condition for maximizing the cooperation needed to manage and solve the world's most pressing problems.

Parameters of a lasting recovery

Dialogue revealed a joint interest in pragmatic problem-solving going forward. Our delegation highlighted excessive leverage and risk as a primary catalyst of the economic downturn, and discussions focused on the macroeconomic dynamics at the heart of the slowdown. We agreed with Zhu Min, Vice President of China's Central Bank, that frequent communication will be necessary to ensure that China and the United States regularly exchange basic macroeconomic information and avoid misunderstandings as the recovery progresses.

Zhu Min suggested that the severity of the downturn in a given country is linked to the type of national economy—whether a country is a borrower-consumer economy like the United States; a saver-manufacturing economy like China, Germany, or South Korea; or a natural resource and extraction-based economy like Brazil and Saudi Arabia. Zhu observed that post-crisis increases in the savings rate in borrower-consumer countries result in a dramatic drop in demand that requires a difficult readjustment for the saver/manufacturing group. He claimed that it is easier for borrower-consumer countries such as the United States and countries that are reliant on key commodity exports to recover than it is for those that depend on exports, such as China.

Yet China has thus far fared comparably well over the last year. China's real GDP growth declined by half a percentage point between 2008 and 2009, compared to the three-point drop in U.S. growth year-on-year. And Chinese growth is projected to return to nearly 10 percent by 2011.⁵

Sustainable growth both in China and the United States hinges on successful economic rebalancing on both sides of the Pacific—despite China's relatively healthy GDP growth projections. The Chinese delegation expressed four key priorities for rebalancing China's economy and contributing to stable global growth: increasing domestic consumption; improving private investment; expanding employment opportunities; and avoiding excess production capacity.

Increasing domestic consumption is critical to China's ability to make a full recovery and rebalance its economy away from the current export-oriented model, as Penny Pritzker emphasized during our meeting with the Minister of Commerce.⁶ There was little dis-

agreement during our talks about the long-term necessity of increasing Chinese consumption, but the Chinese delegation made clear that they believe the global recovery would be led by the restoration of American consumption, rather than an increase among Chinese households in the near term.

Another immediate priority is job creation in China and the United States. SEIU President Andy Stern said that many American workers see the U.S.-China relationship in terms of a win-lose situation, and made clear that American business interests do not equal labor interests. He also noted early in the discussion that China is no longer a developing country in the traditional sense—its growing prominence on the world stage, capped by last year’s Olympic Games in Beijing, cemented its status as a rising power. The CAP delegation also asserted that China’s economic weight in the international system results in wider responsibilities than those of most other developing countries.

The CAP delegation also stressed that the Obama administration judges the health of the U.S. economy in terms of middle-class expansion, and said that a critical issue is where the next generation of jobs will come from. The Chinese side emphasized the challenges they face in providing sufficient employment opportunities; one member of their delegation noted there is an excess labor force of 220 million in rural China, and 20 million migrant workers are currently unemployed.⁷ Heavy infrastructure investments in both the American and Chinese stimulus packages aim to staunch job loss resulting from the economic downturn, but broadening employment opportunities pose a deep challenge to both the United States and China going forward.

The Minister of Commerce and other members of the Chinese delegation also registered concern over the future of financial regulation and U.S. deficits—two issues that the Center for American Progress also believe must be addressed in order to achieve sustainable economic growth. We outlined in our meetings with the Minister of Commerce the Obama administration’s success in preventing a deeper crisis: The \$787 billion stimulus package to buoy employment; the Troubled Asset Relief Program to stabilize the financial sector; and measures to improve transparency and reform the housing industry. Podesta reiterated the need to work for balanced growth and noted that health care reform—a cornerstone of President Obama’s domestic agenda—will play a large role in America’s economic future.



CAP President and CEO John D. Podesta and CAP Distinguished Senior Fellow Senator Tom Daschle give remarks at a morning discussion on the global economic recovery.

Source: CAP

Yet one American delegate also noted that China must be sensitive to the scale of the crisis and pace of recovery. It is important for Chinese leaders to move beyond voicing concerns over the dollar, given the severity of the U.S. unemployment outlook, and take into account the United States' broader economic situation.

A final issue on which the delegations reached broad agreement was the need to reform international financial governance structures. The current financial architecture was created during a post-World War II era and is not ready to meet the needs of the 21st century global economy and financial system. The economic crisis has highlighted the need to reconstitute the economic order in a way that includes a larger role for countries such as China that are key economic players on the international stage. The American and Chinese delegations did not discuss specific ways in which the system needs reform, but this is ripe for further discussion. Sen. Daschle compared the state of global finance to a house that has been burned to the ground, and he called on political leaders to cooperate in order to build a new home.

Flashpoint: Protectionism or enforcement on trade laws?

Minister of Commerce Chen Deming reemphasized to the delegation China's strong opposition to American tariffs on Chinese tires under Section 421 trade laws, which President Obama has since imposed. The tire disagreement dominated much of our conversation with Minister Chen despite numerous economic issues of profound importance. Friction from President Obama's tire decision also hampered progress during October's Joint Commission on Commerce and Trade in Beijing, which occurred a few weeks after the decision to implement tariffs. Trade disputes are unavoidable, but one member of our delegation suggested that the United States and China implement a forum for increasing dialogue surrounding specific trade disputes before they become flashpoints at the International Trade Commission.

Flashpoint: Chinese investment in U.S. corporations

China National Offshore Oil Corporation's very public failure to acquire U.S. oil company Unocal in 2005 still reverberated among members of the Chinese delegation. They suggested that the political firestorm that exploded around CNOOC's bid was largely unanticipated, and expressed interest in improving transparency and communication regarding the Committee on Foreign Investment in the United States' priorities and the types of U.S. industries that would be sensitive to Chinese investment. One American delegate suggested that Chinese entrepreneurs follow the example set by Suntech Power and increase outreach and visibility among state governors and trade unions.

National security

Recommendations

- Establish a Track II dialogue on U.S.-China national security issues, starting with naval operational issues and crisis management. If these discussions prove fruitful, they can be expanded to include humanitarian responses, nonproliferation, and nontraditional security issues.
- Convey the message that the United States will remain engaged in East Asia to provide stability and security, deter aggression, and encourage peaceful resolutions to disputes.
- Remain engaged in the security and economic architecture that is emerging from an increasingly integrated and interdependent Asia.
- Encourage China and Taiwan to continue building commercial ties that can lead to reduced tensions and stabilized cross-Strait relations, and complement this encouragement with a firm U.S. commitment to a peaceful resolution of the cross-Strait issue.

“A Global Imperative” argued that the time for an “engage and hedge” approach is over. China has become a major player on the international stage, and the United States and China will need each other to solve some of the most difficult security challenges. Indeed, Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner acknowledged in an op-ed published before the first meeting of the Strategic and Economic Dialogue held in July this year that, “few global problems can be solved by the U.S. or China alone. And few can be solved without the U.S. and China together.” The United States and China must find a way to continue expanding shared national security interests while tackling the many difficult, but not insurmountable, differences in our relationship.

Cooperation on international security issues

China has come a long way in its responsibility to international peace and security. China is a relatively new global stakeholder, but has quickly stepped up its full cooperation on issues where it has been an engaged and constructive partner, such as nonproliferation and

North Korea. A senior Chinese official told the delegation in a meeting at Zhongnanhai that Beijing remains committed to a resolution on the peninsula and that China has been clear with the North Koreans that they should not possess nuclear weapons and must keep up their denuclearization efforts.

But China's record of cooperation has ample room for improvement. China has yet to come in line with the international community in areas where its energy and economic interests trump international concerns, such as in its relationship with Iran. China's tepid response to Iran's suspected nuclear arms program strikes a sharp contrast to its leadership role on the Korean peninsula. The American delegation made the urgency of resolving the Iran issue clear in discussions with one senior-level Chinese official, emphasizing the need for responsible parties of the international community to work together toward a solution. Iran, the Americans stated, cannot be allowed to weaponize; patience is not a strategy.

The Chinese official responded that the nuclear issue remains “a big headache” for all nations and that the Chinese remain opposed to an Iranian nuclear program, but resolving the issue will ultimately depend on the United States, implying that the matter is a problem between Washington and Tehran. Specifically, the official stated, a resolution will depend on the U.S. view of Iran—what kind of relationship it hopes to develop with Iran and the Muslim world at large.

Another high-level Chinese representative proffered a different approach. He stated that the Chinese want to offer Iran “a package” resolution—one that would recognize Iran's right to a peaceful nuclear program but discourage weaponization of that program. He was

Ambassador Wendy Sherman assesses global opinion polls during a discussion on the next phase of U.S.-China relations.

Source: CAP



confident that the substance of the package would not be an issue. Rather, any difficulties in the negotiation would stem from *how* the P5+1—the permanent members of the U.N. Security Council plus Germany—choose to approach the Iranians. The official asked that Iran play an integral part of any negotiation process and stated that any meaningful negotiation must also address wider Iranian security concerns, not just nuclear concerns.

Military relations

A wide variety of officials on the Chinese side agreed with American assessments that the military-to-military relationship lags far behind progress made in other areas, such as economic cooperation. Participants in our discussions acknowledged that the military relationship has always been the “first to suffer and the last to recover” when faced with a downturn in the relationship. And it is a relationship still fraught with deep suspicion and strategic mistrust and prone to a “start-stop-restart” pattern.

Addressing the mutual distrust in the U.S.-China relationship should be a high priority. Both American and Chinese participants stressed the need to move away from “planning for worst-case scenarios” to capitalizing on opportunities. Continuing to plan for the worst could lock our military relationship into confrontational thinking. Past efforts to increase communication, transparency, and military exchanges have been difficult and slow, but both sides believe it must be pursued. Indeed, the consequences of not trying are too great. “If not handled right,” one senior Chinese military official warned, “a small misunderstanding could lead to a greater state-to-state incident.”

Track II dialogue—unofficial dialogue between non-governmental officials—is always an important way to enhance communication between the two countries. A Track II dialogue aimed at increasing communication and familiarity, and articulating the minimum levels of defense that are necessary for both countries to maintain security, is one particularly important avenue to develop. A number of official dialogues on national security and military issues already exist, but many have been constrained by the conservative nature of military dealings. One official noted in particular that recent official dialogues have reportedly been characterized by both parties showing up with set papers and speeches, reading these pieces aloud, and concluding with no meaningful dialogue.

But past Track II dialogues have been more productive and could prove very useful in addressing a range of important issues, including coordinating naval operational issues, humanitarian responses, non-proliferation, and non-traditional security matters. If these discussions prove fruitful, they can be utilized to address the more difficult challenges in our security relationship, such as China’s military modernization and cyber-security. There was broad consensus between both delegations that the United States and China should pursue Track II dialogues on naval operational issues and protocol, including landing procedures, radio frequencies, tactical procedures, and crisis management; natural disaster



and humanitarian response; regional missile defense; expanding military-to-military programs; and cyber-security.

U.S. policy should in the meantime continue to be oriented toward ensuring that China's pursuit of its national security does not destabilize the region. Signaling that the United States will continue to be the primary provider of regional security is the best way to do so. The United States has carefully balanced the Western Pacific region's security interests since 1945, allowing for the peaceful development of our northeast Asian partners. The Obama administration should convey the message that the United States will remain engaged in East Asia for the long haul to provide security, deter aggression, and encourage peaceful resolutions to disputes—and that it will work closely with its partners and allies to ensure these ends.

The United States should moreover signal its intention to stay engaged in the nascent architecture that is emerging from an increasingly integrated, interdependent Asia. Secretary Clinton's trip to Asia—her first as secretary of state—and the signing of the ASEAN Treaty of Amity and Cooperation were welcome steps in this direction. And President Obama's upcoming trip, where he will be the first president ever to attend a summit of ASEAN, is another.

The CAP delegation meets with Jia Qinglin, Chairman of the Chinese People's Political Consultative Conference, and expresses American hopes for China to respect individual freedoms and expression.

Source: CAP

Taiwan

American and Chinese officials on the trip were heartened by the progress that the PRC and Taiwan have made on the cross-Strait issue, which has dampened the prospects for conflict in one of the last remaining flashpoints for great power conflict in the 21st century. Yet as one American delegate noted, military developments on each side of the Strait have not kept pace with economic progress, and China should make more effort to address the ballistic missile buildup aimed across the Taiwan Strait.

Arms sales to Taiwan will remain a thorny issue. There have been some positive signs lately: U.S. and Chinese military talks resumed in June, and China recently rejoined maritime discussions. But this is only a first step, and the issue of Taiwan arms sales will reoccur. Participants agreed that the U.S.-China military relationship and dialogue should continue, even in difficult times and during disagreements on issues such as American arms sales to Taiwan.

The Obama administration should encourage Beijing and Taipei to continue building commercial ties that can lead to reduced tensions and stabilized cross-Strait relations. But it must supplement that encouragement with a firm commitment to a peaceful resolution of the cross-Strait issue.

Human rights

Human rights will continue to remain a priority and an essential value of U.S. foreign policy. Top Chinese officials highlighted the progress China has made in human rights: economic progress has lifted hundreds of millions out of poverty; the government is working to provide citizens with health coverage.

Yet Chinese officials, as expected, did not acknowledge the human and civil rights abuses that have colored the reports coming from Tibet and Xinjiang, as well as the legal and human rights communities in China. The Chinese officials with whom the CAP delegation spoke maintained that the Dalai Lama and Rebiya Kadeer are not spiritual or cultural leaders, but political figures whose campaigns threaten the territorial integrity of the entire country.

The American delegation responded that the American and international communities do not share the same perception. John Podesta stated that the United States was built on the rights of human and religious expression and that Americans strongly wish for China to respect those expressions and freedoms. The United States and China must continue the dialogue going forward in order to promote the highest standard of human rights. Sen. Daschle added that human rights issues will continue to concern Americans deeply, and that to become real partners, the United States and China must find a way to have candid, meaningful, and productive discussion on human rights. It is our hope, he stated,

that Americans can advance their relationship with revered spiritual leaders like the Dalai Lama while advancing our mutually shared interests with China.

The conversation, in many ways, reflects the difficult course that the larger human rights discussion has taken over the years. There have been some optimistic developments, including the recent resumption of the U.S.-China human rights dialogue, but the situation has not changed much: Human rights continues to be one of the most difficult issues in the relationship. Yet the United States remains one of the few nations that can call China out on its human rights record. As such, the Obama administration has a responsibility to pursue the full range of interests. The United States should not let human rights define the relationship, but it must ensure that human rights and the values and beliefs that have come to define the United States are never left off the table.

Conclusion

President Obama will arrive in Beijing, China, in just a few short days for his first summit with President Hu. Making this trip as historic as President Nixon's first trip to China will require progress on some of the toughest issues at the heart of the most important bilateral relationship in the 21st century: climate change, global economic rebalancing, and national security.

Achieving agreement between the United States and China on these issues will be difficult, but certainly not impossible. Like all tremendous challenges we have faced, progress starts with small steps and concrete work. Initiating and maintaining open, sustained, and candid dialogue on the vast array of issues is a crucial component of working toward solutions. Discussions should be supplemented with concrete projects aimed at innovating solutions on climate change, coordinating action on the global economy, and establishing baseline expectations on national security.

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The Center for American Progress is responsible for the content and opinions of this report.

Endnotes

- 1 Memorandum of Understanding to Enhance Cooperation and on Climate Change, Energy and the Environment between the Government of the United States of American and the Government of the People's Republic of China, July 28, 2009, available at <http://www.state.gov/r/pa/prs/ps/2009/july/126592.htm>.
- 2 See John Larsen and Robert Heilmayr, "Emission Reductions Under the American Clean Energy and Security Act of 2009," World Resources Institute, May 19, 2009, available at http://pdf.wri.org/usclimatetargets_2009-05-19.pdf.
- 3 See Julian L. Wong and Andrew Light, "China Begins its Transition to a Clean Energy Economy," Center for American Progress, June 4, 2009, available at http://www.americanprogress.org/issues/2009/06/china_energy_numbers.html.
- 4 Julian L. Wong, "Peaking Duck: Beijing's Growing Appetite for Climate Action," Center for American Progress, August 20, 2009, available at http://www.americanprogress.org/issues/2009/08/peaking_duck.html.
- 5 International Monetary Fund, "World Economic Outlook: Sustaining the Recovery," (October 2009).
- 6 The disintegration of the social safety net in the 1980s, especially the wide scale loss of health care coverage, is widely considered a leading inhibitor of increased spending among Chinese households. Between 1982 and 2002, government health care spending declined by 50 percent. Although Beijing recently pledged to invest \$124 billion in health care reform between 2009 and 2011, it is too early to determine how effectively it will increase household financial security.
- 7 China's official unemployment rate stood at 4.3 percent during the first quarter of 2009. However, this figure is only applicable to urban residents; it does not account for migrant workers or rural residents.

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