

Avoiding Mutual Misunderstanding: Sino–U.S. Relations and the New Administration

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- China policy should be crafted with an understanding of what motivates the Chinese Communist Party's actions and reactions.
- China expects the United States to lead during the financial crisis and sees its own role as limited to its domestic affairs.
- The United States would have more success in its political and economic agenda with Beijing if it developed high-level relationships with Chinese leaders and avoided aggressive public language on hot-button issues.
- The United States should pursue multilateral policies that include China as a responsible stakeholder, especially in regional initiatives.
- Developing a positive image with Chinese leaders and the public will give the United States valuable political capital in U.S.–China relations.

SUMMARY

After the election of Barack Obama as president, Carnegie's Beijing Office assembled a group of leading scholars of international relations to discuss their expectations of the new administration. This policy brief conveys their opinions on various aspects of Sino–American relations and on U.S. foreign policy in general.

Among President George W. Bush's foreign policy legacies, the United States' relationship with the People's Republic of China is one rare bright spot. The last eight years of U.S.–China relations have been defined by two themes. The first is unprecedented bilateral cooperation on shared concerns, such as the denuclearization of North Korea, terrorism, and the global financial crisis, as well as the inauguration of the Strategic Economic Dialogue between top officials. The second is economic competition over issues such as trade imbalances and competition for regional influence. Though the neoconservative suspicion and ideological rhetoric of the early Bush administration has gradually been replaced by pragmatic engagement, which acknowledges the necessity of a stable U.S.–China relationship, there is still a great deal of mutual misunderstanding between the two countries.

Reality vs. Perception

A common misperception among some U.S. policy makers and the American media is that China's Communist Party (CCP) acts as a monolithic, omnipresent body. Perhaps this view was once accurate, but it no longer fits the reality on the ground. With rapid economic development and an increase in wealth, people in China have not only become more interested in politics but they also have more access to information. In just two years, between 2006 and 2008, China's Internet population soared from 111 million to 253 million. Newspapers, magazines, and radio and TV stations now regularly run international news and editorials to compete for readership. The increasing public awareness of international affairs and the Chinese media's expanded

coverage of global events have created new challenges for the CCP, which must accommodate not only vested interests, such as government bureaucracies and business, but also popular opinion. How public opinion is likely to affect government policy is an important new factor to consider when formulating policy toward China.

Beijing's priorities and its political motives are complex. Building a constructive relationship will require that the United States not only approach China as a global power capable of defending its territorial integrity and asserting its strategic interests, but also as a developing nation with a government deeply concerned with internal stability, economic development, and the regime's legitimacy in the eyes of ordinary Chinese. The factor of internal legitimacy cannot be underestimated in understanding and predicting China's response to real or perceived threats to its national interests.

The Financial Crisis: Participation "According to Its Capabilities"

It is important for American leaders to understand that China is willing to participate in both formulating policy proposals and taking substantive measures to contain the international financial crisis and revive global economic growth to the degree to which it perceives its capabilities permit. Accordingly, the United States must temper its expectations regarding how much China can contribute to multilateral efforts.

Official Chinese media have reiterated China's limited capacity to help during the crisis internationally and domestically. While President Hu Jintao has worked to bolster confidence in China's ability to weather the storm, Premier Wen Jiabao has tried hard to lower domestic expectations. He has publicly cautioned that the crisis is "worse than expected" in China. With exports accounting for close to 40 percent of China's gross domestic product (GDP), the full impact of the crisis on the Chinese economy is already visible and severe. China's growth rate has plummeted due to weakening demands for Chinese goods in the United States and Europe. Tens of thousands of manufacturing factories have been closed and hundreds of thousands of migrant workers have been laid off in the coastal areas. Chinese economists agree that at least 8 percent growth is needed to accommodate new laborers entering the work force. Industrial growth for October was 8.2 percent, the lowest in seven years. The Chinese government projected GDP growth for 2009 at 7.5 percent, but many economists predict an even lower growth rate, which will lead to rising unemployment. Stalled growth could fuel social unrest.

Given these problems, China sees its first responsibility in dealing with the global economic crisis as stabilizing its domestic markets. Between September and November 2008, China adopted a series of stimulus measures, including cutting interest rates three times, lowering bank reserve requirement ratios twice, making tax changes, revising labor law requirements for enterprises, and increasing credit quotas. On November 9, the State Council unveiled a bold stimulus package amounting to an estimated U.S. \$586 billion, the equivalent of about 16 percent of China's 2007 GDP.

The package is aimed at boosting domestic demand over the next two years to finance programs in ten areas, primarily infrastructure. Foreign policy experts in China argue that a healthy and stable Chinese market is the most important contribution China can make to the world economy. Indeed, Chinese official rhetoric during the recent G20 summit underlined the limited role that China sees for itself in a concerted global action: it would contribute “according to its capabilities.”

Though China holds \$1.9 trillion in foreign currency reserves, it would be wrong to view this as a sign of Chinese strength, much less as a reason for China to make greater financial commitments to a global anticrisis plan. First, when divided by 1.3 billion (China’s population), per capita foreign currency reserves are roughly \$1,500, a modest amount. Moreover, about two-thirds of Chinese foreign currency reserves have been invested in U.S. dollar-based assets, such as U.S. treasury bonds. With the recent reevaluation of the yuan, China has already suffered large paper losses. If anything, China’s foreign cur-

rency reserves are bound to grow more slowly as the country’s exports slow and domestic consumption rises. Therefore, foreign policy experts in China suggest the new U.S. administration lower its expectations on capital contributions from China during the economic crisis. They argue that raising unrealistic expectations would lead to frustration on both sides and jeopardize bilateral relations.

Despite talk of American decline, foreign policy experts in China expect that the United States will assume the mantle of responsibility and leadership during this period of financial uncertainty. They also believe that more dramatic and effective measures will be taken by the new administration to stabilize the U.S. economy and reform the critical institutions in the international economy. As the largest developing nation, China expects to participate in the process of creating and reforming international regulatory institutions to make them able to respond to future financial crises.

PROTECTIONISM IS NOT THE WAY TO DEAL WITH THE CURRENT ECONOMIC CRISIS

Many experts in China are worried about the possibility of protectionism under an Obama administration. Democrats are stereotyped as protectionist and the campaign rhetoric during the Democratic primaries only increased such fears among scholars and policy makers in China. People read with alarm the claims made by the Obama campaign that labor and environmental standards would be introduced into trade agreements. Further, as the U.S. economy experiences difficulties, many expect that labor unions will pressure the new administration to pass measures to protect American workers. Thus, many in China expect the new U.S. administration to face rising domestic political pressure to erect trade barriers.

Most foreign policy experts and policy makers in China hope that the new admin-

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istration will approach trade pragmatically. They emphasize that injecting protectionism into U.S.–Chinese trade relations would neither help the world economy nor return or keep jobs in the United States. They argue that the Great Depression proved that protectionism can inflict catastrophic damage on the world economy.

STOP PRESSING CHINA TO APPRECIATE ITS CURRENCY

According to U.S. economists, appreciation of China’s currency, the RMB, would blunt the impact of world oil and commodity prices on China, encourage economic activity in the service industry, and raise domestic consumption of goods imported from the United States. From the perspective of Chinese economists, revaluation

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would further reduce the competitiveness of goods produced in China and further jeopardize the Chinese economy. Nor is revaluation of the RMB seen as likely to serve American economic interests, because China would be forced to purchase less American debt at a time when rising federal deficits require greater purchases from countries like China. From a political perspective, many ordinary Chinese citizens view the U.S. demands to revalue the RMB as an attempt to limit China’s growth. Most experts in China believe that as official policy, the United States should cease to press for further appreciation of the RMB. According to them, it will most likely be a fruitless endeavor in the current economic climate and will waste political capital that the new U.S. administration could use to pursue its other economic initiatives with China. In their view, at a time of global financial instability, the best course for China to take would be currency stability.

MECHANISMS FOR ECONOMIC COOPERATION:

THE U.S.–CHINESE STRATEGIC ECONOMIC DIALOGUE AND LESSONS FOR ENGAGEMENT

There is a consensus among experts on the Chinese side that the U.S.–Chinese Strategic Economic Dialogue (SED) has been a positive force not only for economic ties but also for movement on many other bilateral issues. Since 2006 when Treasury Secretary Henry Paulson and President Bush first established the SED, face-to-face senior-level discussions have been a constructive means of communicating intersecting interests, bypassing bureaucracy, building relationships, and avoiding futile “megaphone diplomacy.”

Perhaps the most valuable lesson learned through these dialogues is that private channels are usually more conducive to positive outcomes in negotiations with China. Common experience has taught businessmen in China that trust and consensus are key elements of success, and this holds true in this case as well. Professor Qingguo Jia from Peking University and Professor Zhe Sun from Tsinghua University believe that

the SED has gone a long way to cool rhetoric between the two countries and they urge continued active engagement on senior levels. For America, this has meant designating the treasury secretary and the national economic adviser to lead the U.S. side; on the Chinese side, the vice-premier has led discussions and has been supported by the largest and highest ranking body of inter-ministerial officials in China. The symbolic as well as actual importance of these appointments has helped avoid bureaucratic red tape that characterizes Chinese politics and misunderstanding on both sides. To this end, many also recommend curbing what they describe as hostile language directed at China through the mainstream media. They say challenging China in highly public ways makes it difficult for Chinese leaders to compromise; their maneuverability is increasingly hamstrung by public pressure to respond aggressively to real or imagined U.S. slights.

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While the CCP views growing nationalism among its people as a potential threat to stability, to retain the popular mandate it claims the people have granted, the CCP must satisfy the demands of national pride. Confronting China publicly may score points in U.S. domestic politics, but to achieve positive results, officials at the highest level must engage each other and attempt to stay above the domestic fray. Political posturing by both sides has undoubtedly damaged relations between the United States and China in the past and has made measured responses by China difficult. Chinese leaders will be more open to concessions when their legitimacy at home is not at stake.

The enthusiasm with which these talks have been embraced by both Chinese policy experts and official media offers important insights into the Chinese political process. The SED has received extensive and favorable coverage in China's official media and been embraced by the public as a forum in which China is treated as a respected and equal partner. This means there is room for the United States to pursue its agenda, while reassuring Chinese officials that further reform of its economy is in the interests of both countries. It can also be used to diffuse the inevitable tension that arises when communication occurs only through the media. In addition to continuing the SED, experts recommend that the Obama administration take the initiative to begin a broader dialogue early on, since personal, high-level engagement has proven a stabilizing force between the United States and China.

International Relations

PRAGMATISM VS. IDEOLOGICALLY DRIVEN FOREIGN POLICY

Over the past year or so, elections in the West have brought a new generation of leaders onto the world stage. These leaders, particularly those from industrial democracies, are perceived as both young and liberal. For many in China, this once again

raises the possibility that these new leaders will attempt to define themselves vis-à-vis China by emphasizing their ideological differences. The Clinton administration tried to define its relationship with China according to ideological differences at the beginning; the Bush administration in its early stage is considered by many to have broken with Republican tradition and done the same. Both, however, abandoned these efforts and adopted pragmatic approaches over time. Chinese experts on foreign

policy recommend that the Obama administration avoid a similar policy approach from the outset.

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Some academics are quite worried that the new U.S. administration will establish a “League” or “Concert of Democracies”

outside the United Nations. Such a move would surely be interpreted as trying to isolate and humiliate China politically and would make U.S.–Chinese collaboration extremely difficult, if not impossible.

MULTILATERALISM

President-elect Obama recognizes that the United States cannot address many of the global challenges that await his administration unilaterally. The widespread consensus is that he is truly committed to pursuing a multilateral foreign policy. The real challenge lies in deciding how such coordination can be achieved in practice. Scholars in China see three channels. First, the United Nations, which is recognized as an authority by most countries but suffers from inefficiency and often insufficient support, particularly when major powers disagree. The second is the G8. However, the G8 does not include any rapidly developing countries and resolving global issues will inevitably need the cooperation of those nations. In contrast, the G20 includes too many countries; that is, it promises to be unwieldy when efficiency and speed are required. Some Chinese scholars propose the creation of a new organization composed of most G8 countries and some emerging powers capable of playing prominent roles in countering terrorism and global warming. As the biggest developing country, China sees itself as a potential partner in such an enterprise.

HUMAN RIGHTS

The issue of human rights presents an invariable point of tension between the two countries. Public affirmation of America’s commitment to human rights is unavoidable, as are the issues that are bound to arise between the United States and China in this area. Acknowledging this, foreign policy experts in China make two important suggestions: first, they argue that America needs to fully grasp the achievements that have been made by China in the past 30 years. Economic growth has lifted several hundred million people out of poverty, and Chinese citizens enjoy greater personal

liberties than ever before. Second, they advise pursuing America's human rights agenda through cooperative channels rather than in confrontational settings. Above all, patience and perseverance are needed in trying to advance America's human rights goals in China. In retrospect, argued by foreign policy experts we talked to, the most significant progress in human rights in China in the last three decades has come about mainly as a result of Washington's long-term, consistent, and patient engagement with China.

STRATEGIC RELATIONSHIPS WITH CHINA AND RUSSIA

Chinese experts agree that the relationship between Moscow and Washington is at its lowest point since the Reagan years. The past eight years have been marked by Russian hostility toward American unipolar foreign policy in the Middle East and Washington's high-handedness toward Moscow on many issues critical to Russian national interests. In the wake of the armed conflict between Russia and Georgia, it is critically important that the Obama administration repair its relationship with Moscow.

China and Russia have managed to overcome their traditional suspicion of each other and develop a normal relationship over the past decade. Experts agree that it is in the United States' best interest to cultivate better ties with both countries. China also wishes for a speedy repair of U.S.–Russian relations so that the major powers can work together to manage the global economic crisis and address common concerns, such as North Korea's nuclear capabilities and the Middle East.

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THINKING STRATEGICALLY ON TAIWAN

Taiwan remains a priority concern for the Chinese military, government, policy experts, and ordinary citizens. After eight turbulent years, scholars of international relations and government officials believe it is time for America to reevaluate its Taiwan policy.

As mentioned, public opinion has an increasingly important influence on China's policy making. The Internet has not only allowed Chinese citizens to access information from sources abroad but also has provided the space for them to criticize the regime's foreign policy decisions. Taiwan is the most important issue in Sino–American relations for ordinary Chinese. It puts the CCP under intense pressure to respond aggressively to any actions America makes in the region or risk the ire of its citizens. Survey research shows that American involvement in Taiwan constitutes the major source of anti-Americanism in China, both for people who have access only to official media and for those who also have regular access to media from Hong Kong or

Taiwan or both. The recent (October 2008) White House announcement of a \$6.4 billion arms sale to Taiwan was widely perceived by ordinary Chinese as trying to contain China's development by aiding "separatist movements." Given the recent opening of official dialogue between mainland China and Taiwan, foreign policy experts in China overwhelmingly believe that the Obama administration should withhold further arms sales to Taiwan in the near future.

IRAQ

Most foreign policy researchers understand that Obama wants to withdraw from Iraq as soon as possible and is under considerable pressure from the American public to do so. However, most of them believe that America should not withdraw from Iraq without first helping it establish an effective and sustainable government capable of providing peace and security for its people. This should be the goal, unlimited by any artificial deadlines. It would be ideal if the United States could achieve stability within the sixteen-month time limit Obama has promised. However, a hard deadline without significant progress in Iraq would be dangerous to stability in the Middle East. Chinese foreign policy experts believe that America has the moral responsibility to pursue a durable peace within Iraq.

NORTH KOREA

Any instability in the Korean peninsula would create enormous economic and geopolitical strains in East Asia. It is generally believed by all parties involved that military force would be counterproductive in resolving the stand-off with North Korea and that the Six-Party talks are the only viable means of ending Pyongyang's nuclear ambitions.

Most Chinese scholars would like the new U.S. administration to show more flexibility in the talks. They firmly believe that flexibility on the American side would ease North Korea's stance and help achieve settlement expeditiously. There is a consensus among those in foreign policy circles in China that America should open direct dialogue with North Korea. They also urge that incremental concessions on the North Korean side be met faithfully with incremental rewards from all other parties in the talks, including the United States, as was promised.

Establish a Personal Relationship With China's Leaders and Offer a Symbolic Gesture to the Chinese People

There are bound to be disagreements between the United States and China. Many of those disputes between the two countries may truly be zero sum in nature. Yet there are many shared goals as well. In addressing any of those issues, bargaining and concessions by both sides are necessary. To establish a good working relationship

with Chinese leaders, foreign policy experts believe President-elect Obama should visit East Asia as early as possible after taking office. Such a visit would not only show people in East Asia that the region is important to the United States but also could help establish personal relationships with Asia's political leaders, who place a high value on direct personal ties.

Should an early visit prove impossible, other suggestions to the new president include agreeing to an interview by Chinese television and newspaper reporters or giving a speech on the thirtieth anniversary of the establishment of diplomatic relations between the two countries. Gestures such as these would help President Obama project a fresh and positive image among ordinary people, intellectuals, and politicians in China. ■