



Assessing President Hu's Visit

Nicholas R. Lardy says that despite lack of concrete progress on many issues, President Hu made a favorable impression that could improve US-China relations.

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Steve Weisman: President Hu Jintao of China has completed his visit to Washington. Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, is here with me, Steve Weisman, to assess the visit. Nick, what impression has President Hu made in Washington?

Nicholas R. Lardy: I think on balance fairly positive. His tone was positive; his body language was positive. And most importantly, there was some substantive give on some issues.

Steve Weisman: Let's talk about that.

Nicholas R. Lardy: For example, this indigenous innovation [the policy encouraging domestic production of new goods], which has exercised many American firms who feel that it works to their disadvantage, which I think it probably does in many cases. They agreed to make some modifications. Secondly, they agreed that they would put forward a new proposal to become a signatory to the Government Procurement Agreement, which China has not yet participated in as part of the WTO [World Trade Organization] process. If we can reach an agreement there, American companies will have better access to the market that consists of Chinese government purchases, which runs around \$900 billion a year.

And there were also some movements in the other areas: in IPR—Intellectual Property Rights. We've known for years that a large fraction of the software in China that is used in computers is pirated. And they did say last month that they were going to make major efforts to be sure that, at least in government offices, the computer software being used was legal.

Now in this trip, they agreed that they would actually carry out an audit of all government offices. And they would publicize the results of the audit, which would make known to what extent pirating is still a problem in government offices. And I think the assumption is before that audit is undertaken, they will probably buy a lot of legitimate software.

Steve Weisman: There was some attention paid to a trade agreement of some kind. What were the details?

Nicholas R. Lardy: There wasn't a specific trade agreement, but what was announced was a long, long list of contracts that had been signed by Chinese companies and American companies that will result in very substantial exports of US products to China. Two hundred Boeing aircraft valued at something like \$19 billion to be delivered over the next three years. General Electric had several major initiatives that were announced.

And a fairly long list that went on seven or eight pages; not all of them are guaranteed. Some of them are letters of intent where two parties are working together to try to reach an agreement. But the overall list was, I think, much longer and much larger in cumulative size than anybody had anticipated.

Steve Weisman: That reminded me of the agreements they used to sign in the 1980s with Japan to placate American business leaders. But you think this was more than symbolic?

Nicholas R. Lardy: Some of these agreements obviously have been reached some time ago and they just saved them up to announce on this auspicious occasion, shall we say. Both sides felt it would work to their advantage if they got a little bit more publicity.

The headline figure that the White House is quoting is \$45 billion. I don't imagine as much as half of that is really true additional transactions. Most of these were in the pipeline anyway. But on the other hand, when they carried out a similar exercise in England recently, when there was a big visit to the United Kingdom, the deals announced were \$5 billion. So this is much, much bigger.

Steve Weisman: What about the other economic issue, which is the exchange rate currency levels? President Obama said a couple of times that the renminbi is undervalued. But President Hu does not seem to have addressed that in his public comments.

Nicholas R. Lardy: I think the fairest thing to say is that no evidence of any progress is available. President Hu did not respond to the repeated statements of both the president and [Treasury] Secretary [Timothy] Geithner in the run-up to President Hu's arrival in Washington. But it was very unlikely that he was going to make any explicit commitment in this area while he was in the United States. This is a very hot, contentious issue domestically in China.

It may be that he's going away from Washington with a better understanding of the US perspective on this. Maybe the currency will appreciate a little more rapidly going forward. I'm not forecasting that, but what we'll have to do is watch this in the weeks and months ahead to see exactly what happens on currency policy.

Steve Weisman: In the noneconomic areas, there were some striking developments. In particular, President Hu's acknowledgement that China faces the difficulty of making improvements in some of the human rights areas. A lot of the commentators are making much of his statement.

Nicholas R. Lardy: I think it is unusual for President Hu to say, paraphrasing: "We have a long way to go to improve the human rights situation." It would not have been an unusual statement from the premier, the number-two person in China, Wen Jiabao, who has spoken a little bit more openly about democratic reform and human rights.

But even though they're mouthing words that seem encouraging, shall we say, you have to remember they have a very different view of these issues. I mean, Chinese leaders for decades have said with a straight face, "Well, our constitution guarantees freedom of the press and freedom of religion and so forth and so on." But I think by American standards and in an American perspective, nobody would agree that that's actually the case. The Communist Party has traditionally controlled most of the press. Religious groups, particularly house religion groups, have been persecuted fairly persistently.

Some of these things may be in the constitution. Leaders may enunciate support for some of these things [in a way] that sounds reassuring. But the reality on the ground by our standards is really something quite different.

Steve Weisman: So it would be a mistake to make too much of it.

Nicholas R. Lardy: Yes. I think it is encouraging that he made the statement that he did, but I wouldn't make too much of it.

Steve Weisman: Any progress on the other security issues, such as North Korea?

Nicholas R. Lardy: Very difficult to judge. Some experts in this area are saying that China did move a little bit more publicly towards our view about denuclearization on the Korean Peninsula. But there they are walking a very fine line, trying to keep open their ties with the North, still trying to encourage them to modify many of their security and also their economic policies.

Steve Weisman: Let's talk for a second about how the Obama administration handled it. They certainly rolled out the red carpet—to use the cliché—for President Hu. They gave him a state visit, something he hadn't had before, as well as two dinners together. Can such things change the relationship?

Nicholas R. Lardy: Not fundamentally. But it was very clear in advance and very clear throughout the visit, very clear even today, that they bent over backwards to make sure that from a protocol point of view, the visit was really flawless. No big glitches, no gaffes. There were some demonstrators at his lunch today, but the police kept them about a block and a half away from the site of the lunch. You know, they were very upset a couple of years ago when a Chinese leader did confront some demonstrators, in immediate proximity to his person.

From that point of view, the White House went all out to make this a success so that it would look good on Chinese television. The Chinese leader would be in a respectful position; he wouldn't be challenged by demonstrators. And I think, in retrospect, it's probably the right decision to go out of your way for that because that's the main thing we gave China, and China was forthcoming on some of our more substantive issues. So I think it was a very good tradeoff for us.

Steve Weisman: There was a lot of talk of being equal partners and some commentators have suggested there was more of that this time.

Nicholas R. Lardy: Yes, there was a lot of that—a lot of talk about cooperation, a lot of recognition on both sides on a number of global issues. The cooperation between the United States and China is a critical factor in moving towards solutions. So there was more of a parity, and that's consistent with the long-time policy of the Obama administration, trying to draw China into global governance. The G-20, of which China is a very important member, also, I think, reflects that perspective.

Steve Weisman: President Hu only has a little while left in office. How long?

Nicholas R. Lardy: A couple years before he leaves. Many people do say this is almost certainly his final appearance in the United States as the president of China. And so for him, this was a bit of a victory lap, if you will.

Steve Weisman: And just summing up, what conclusion do you draw from this visit on how much easier it might be to settle some of these issues?

Nicholas R. Lardy: I think potentially it changes the tone and puts us on a different trajectory. But unexpected things always come up, and how they get handled will depend on how each side reacts. We could be moving on a more positive trajectory. But I don't think you could guarantee that on the basis of anything that happened in Washington over the last three days.

Steve Weisman: Nicholas Lardy, thank you very much.

Nicholas R. Lardy: Thank you.

