



Taking the Measure of China's Future Leader

Nicholas R. Lardy says the United States will use the visit of Vice President Xi Jin Ping to assess where US-China relations are going in the next decade.

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Steve Weisman: Vice President Xi Jinping of China arrives in the United States on February 14. Nicholas Lardy, senior fellow at the Peterson Institute and author of the book *Sustaining China's Growth After the Global Financial Crisis* is here with me, Steve Weisman, to present an outlook of this important visit. President Obama's State of the Union address was pretty tough on China. What's the climate surrounding this visit?

Nicholas Lardy: I think the underlying climate is pretty good. Obviously, however, some trade issues are looming larger in the relationship, and it was respect to those trade issues that President Obama was most critical in his State of the Union address.

Steve Weisman: What are the main things likely to be accomplished by this visit? It's a reciprocal visit from Vice President Biden's visit to China last year. Also tell us more about the importance of Mr. Xi.

Nicholas Lardy: Mr. Xi is the odds-on favorite to become President of China and, more importantly, General Secretary of the Chinese Communist Party, later this year. So he is the man, essentially, who will be replacing [President] Hu Jintao, unless there's an enormous, unforeseen development in China's political system.

So certainly from the point of view of the United States, the most important thing about this visit, quite frankly, is a chance to understand Mr. Xi better. Like his predecessor, he's likely to be in office for ten years, so this is the person that the American president for the next ten years will be dealing with as the head of China. Understanding his thinking, getting his point of view on a very broad range of issues, I think is quite important for the United States.

Steve Weisman: What's his orientation? Is it primarily political, economic, security?

Nicholas Lardy: It's inevitably, to a considerable extent, political. He has served as governor or First Party Secretary in a couple of provinces that are very, very outward-oriented, and have been participating in China's tremendous growth of global trade and investment over the last decade or so. So he is familiar with China's increasing dependence and integration into the global economy.

Steve Weisman: Your book suggests that while China performed well after the global financial crisis, it needs to rebalance its economy. Is Mr. Xi likely to be the guy to carry out those reforms?

Nicholas Lardy: Certainly without his support, there'll be no chance of carrying out the reforms that would lead to the rebalancing. And the rebalancing has been an important part of the bilateral economic agenda between China and the United States. It's been an important part of the G20 agenda in which China and the United States both play very important roles, and

China has pledged to rebalance its economy. Elements of its twelfth five-year plan -- we're now in the first year of that plan -- are at least verbally giving a lot of support to that.

But we're in a period now in China where there are not a lot of new initiatives. The old guys are fading from the scene, not wanting to rock the boat. The new people haven't come in yet, and so you don't see a lot of major policy initiatives. But if we're going to have major policy initiatives in any domain, whether security, foreign policy, or economics, they'll certainly have to be supported by Mr. Xi. Otherwise, they're not very likely to happen.

Steve Weisman: Your comment earlier that it should be a positive visit and referencing the State of the Union criticism of China suggests to me that they see these criticisms as business as usual. How fraught are the concerns about Chinese currency and trade and investment policy with regard to foreigners these days?

Nicholas Lardy: I think it's a mixed picture. Their currency is probably less over-valued than any time in the last five or six years. Their external surplus has come down by about two thirds from the peak. I think, however, there's a lot of concern focused on subsidies that favor certain industries, particularly in the exports sector.

A more general concern is that China's industrial policy is becoming more robust and is disadvantaging American firms. So I think in the overall scheme of things, the currency is probably still somewhat undervalued. But some of the industrial policy elements are rising up the agenda.

Steve Weisman: And the legislation in Congress that would punish China over currency -- is that still at the top of the list of Chinese concerns?

Nicholas Lardy: That's certainly one of them. That agenda has broadened out now to deal with a number of issues in addition to just the value of the currency; how you can, what kinds of actions you can take to counter subsidies or other kinds of anti-competitive practices in international trade. Whether or not any of those will be passed by Congress remains to be seen.

Steve Weisman: Let me ask a final question about security issues, especially North Korea and Iran, where Chinese cooperation is considered in Washington to be essential. Over the weekend, we saw China siding with Russia in opposing condemnation of Syria. That was the long-standing Chinese view against taking positions on the internal affairs of other countries. As Iran heats up, how much do you think they'll be talking about that situation and other security concerns?

Nicholas Lardy: I think definitely those will be very important items for discussion, getting a better understanding of the Chinese view on Syria, seeing what can be done to bring them around to support UN Security Council resolutions. After all, the Chinese have supported resolutions in the United Nations with respect to Iran.

And the Chinese opening position is always, "We don't want to take any stance that can be seen as interfering with internal affairs of another country." But in fact, they have inevitably, I think, over recent years, had to move away from that position. It may still be their preferred opening statement, but the realities are more complicated. They have taken votes in the UN in favor of sanctions on various countries. I'm sure that will be a subject of very intense dialogue.

I think another issue in the security domain that will be discussed is that I think Mr. Xi will want to get a much deeper understanding of the so-called pivot to Asia that was unveiled several weeks ago as a new element in US policy. Is this just returning to the status quo ante -- because we've had our eyes on other parts of the world -- or does this really represent a more concerted posture in Asia that has a very strong anti-China dimension or at least anti-China contingency?

I think this is being hotly debated within China, how to understand this. The administration has been reaching out to Chinese leaders explaining it, but I'm sure Mr. Xi will have questions on that policy initiative by the administration.

Steve Weisman: Are the Chinese concerned about the US political and military presence?

Nicholas Lardy: Yes. I think definitely they see a number of new elements that potentially could be interpreted as containment of China, a policy that we claim not to have. But the Chinese watch very closely not only what we say, but also what we do.

Steve Weisman: And what we do that they're watching includes ...

Nicholas Lardy: Stationing troops in Australia for the first time is certainly one element. Volunteering to step in and settle some territorial disputes between China and Southeast Asian countries in the South China Sea is certainly something the Chinese certainly did not welcome. [Secretary of State] Hillary Clinton's reference to the South China Sea as a "Philippine lake" certainly raised eyebrows in Beijing.

Steve Weisman: Thank you, Nick.

