Changes under China's New Leadership: Part II

Nicholas R. Lardy assesses the Obama Administration's second-term economic and political agenda with China.

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Steven Weisman: Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, is here with me, Steve Weisman, talking about the new leadership in China. I want to turn to the United States and the Obama administration's agenda with regard to China. Secretary of State Kerry did not, like his predecessor, Secretary Clinton, go first to China after taking office. On the other hand, Secretary of the Treasury Jack Lew made his first trip shortly after taking office to China. What can you tell us about the American agenda this time around?

Nicholas Lardy: I think we are seeing that the American agenda is trying to build on the relationship that we've had with China and to make sure that there are no missteps or slippages as China moves into its new leadership. I think it was signaled very strongly that within a day of the time that Xi Jinping became the new president of China this spring. Remember, he became the head of the party last fall at an important party meeting. But at the government meetings this spring, he officially assumed the office of president of China.

And within a day and I think even less, President Obama had placed a phone call to him not only to give his congratulations but to talk about the relationship and what they could do together to strengthen it. Then we saw the Treasury Secretary traveling to China, not just as a treasury secretary but designated as an emissary of the president.

Steven Weisman: There was something unusual you noticed about that.

Nicholas Lardy: It gave the Treasury Secretary the remit to talk about a broad range of issues that extend far beyond the usual treasury portfolio. So he talked about North Korea certainly. He talked about cyber issues that are important to both governments. It was not just going to talk about narrow economic issues or the exchange rate or what we would consider to be the traditional kind of Treasury issues.

And that was reflected in the fact that he had meetings with both the Chinese president and the premier. He met both with Xi Jinping and Li Keqiang on successive days in his trip there. Of course, he met and had lunch with Zhou Xiaochuan, the central bank governor, and had a number of other meetings. But he was received at a very, very high level. And there was a very broad range of issues being discussed.

I think that trip by Secretary Lew would be followed up within the next couple of weeks by a trip by Secretary of State Kerry. And again, this signals the priority that the administration is giving to continuing to build on the relationship and to have continuity in the relationship and signal to the Chinese how important it is. And the Chinese are reciprocating, as I mentioned, by having the Treasury secretary meeting with both their president and their premier.

Steven Weisman: What's the takeaway from the fact that he met with such high levels of leadership and the favorable public impact of his visit, including trivial things like his going to a dumpling restaurant?

Nicholas Lardy: I happen to have been in Beijing at the time the Treasury Secretary was there. There was very extensive coverage in the print and broadcast media, and most of it was very favorable. Now, you have to immediately put in the caveat that they didn't resolve any key issues. I don't think that the Treasury Secretary expected it to do that. He put a lot of issues on the agenda, which I think will be followed up by Secretary [of State John] Kerry and others probably even higher up in the administration over the coming year. But in general, the reception was quite positive.

Steven Weisman: You mentioned North Korea and cyber. Both issues have heated up in the last month or two because of charges of cyber attacks that seemed to originate, according to some press reports, in China, and also of course North Korea's activities in connection with its nuclear program. Is any progress in the offing?

Nicholas Lardy: I wouldn't rule out progress being made even on the very tough issue of cyber. The Chinese, of course, denied that they are the source of attacks on the United States, which maybe is to be expected. But they also are very clear that they are also being attacked and that the United States and China have a shared interest in trying to make this a more manageable problem.

I think we are going to be pushing through an open door. They are very concerned about the security of their networks and so forth just as we are about ours. That at least opens a possibility for some closer cooperation. I doubt this issue is going to be fully resolved any time soon. But we could begin to make progress on it. And I think that would hopefully reduce the possibility that the dispute on cyber could become a flashpoint in the relationship.

Steven Weisman: Thank you very much, Nick.

Nicholas Lardy: Thank you, Steve.