A New US-China Relationship? Part I

Nicholas R. Lardy assesses the outlook for the Obama–Xi Jinping Summit in California on June 6-7.

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Steve Weisman: President Obama and President Xi Jinping of China are meeting in California for their first face-to-face summit session since President Xi took office earlier this year in 2013. There are high hopes and speculation about what can be accomplished. Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, is here with me, Steve Weisman, to give us some background and to project what might be the outcome.

Nick, first, although this is their first face-to-face meeting, since the President ascended to power, the administration knows him somewhat.

Nicholas Lardy: The Obama Administration has had, I think, a very, very carefully orchestrated China policy. One of the smart things they did in 2012 was to invite Xi Jinping for an extensive visit to the United States. Mr. Xi has been Vice President of China for five years and everyone has anticipated that he would become President, indeed as he has. So the administration thought it would be a good opportunity to have a more extended time with him. The natural thing that was done was to have the U.S. Vice President, Mr. [Joseph] Biden, invite Mr. Xi to come to a visit. Mr. Biden traveled with him extensively on the East Coast, out in the central part of the country, out in the West, and they spent really an unprecedented amount of time together. I think that trip and the extensive access that the administration had to Mr. Xi gave us a much better sense of Mr. Xi as a person and how he would be as a leader.

And, President Obama has lost no time maintaining the relationship. He has sent the military leaders to revive the military-to-military relationship. Secretary [of State John F.] Kerry made a trip there. Treasury Secretary [Jacob] Lew made a trip there. Tom Donilon, his National Security Advisor, was in Beijing just a few days ago. And, most importantly, on the very day that Xi Jinping assumed the office of President of China, Mr. Obama called him on the phone to congratulate him and to put the relationship on a new level. But, the most important thing was what Mr. Xi said when he came to the United States in 2012, and that was that United States and China should develop a new type of great power relationship. He didn't exactly say what it was, and I think the meeting next week in California will begin to flesh that out.

Steve Weisman: Let's try and flesh it out a little bit. Do you see any evidence that there is a new concept to this relationship or that there has been progress on some of the contentious issues that have always been there?

Nicholas Lardy: I think the underlying concept is that we have an established powerful country in the United States and a rising power, China, and that historically that has led to some very unhappy outcomes. And so, clearly, the idea behind this is that we should manage the

relationship so that there will be elements of competition, there will be elements of cooperation. But it's not going to be like, let's say, the rise of Japan in the '20s and the '30s that contributed to the war in the Pacific. I think the underlying objective is a great big strategic one. But how to actually realize it is, I think, the challenge.

Steve Weisman: Let's just talk about one political issue. China appears, according to some news reports, to be more cooperative in putting pressure on North Korea. News reports suggest that China wants the U.S. to be grateful for its change of tone and maybe in return get some concessions from the United States. Do you have a reading of that?

Nicholas Lardy: I think the idea that China expects concessions in exchange for what they've done is really just speculation. It may turn out to be the case, but probably will not. There has actually been a fairly close alignment of U.S. interests and Chinese interests on the Korean Peninsula. China has long supported the idea of denuclearization. That's certainly the U.S. goal. China promoted the so-called six-party talks, which went on for a while but broke down a couple of years ago. Now, they're putting very strong pressure on North Korea to resume the six-party talks.

They've also taken some very important, not widely noticed, but some very important steps in the financial sector. Certain Chinese banks which have been essential to North Korea's interaction financially with the rest of the world are now cutting off Korea's access and use of their banking system. I think this is a very significant step and reflects Chinese basic unhappiness with the way domestic policy is evolving in the north. I think they are taking these steps primarily for their own interest. I'm sure they wouldn't mind getting credit for this with the U.S., but I think this is an area where U.S. and Chinese interests do overlap to a considerable degree.

Steve Weisman: Let's stop there, and in the second part of this interview, I want to ask you about the commentary from senior Chinese leaders that they are moving more and more into liberalizing their economy.