

MEMORANDUM

TO: President Obama
FROM: Kenneth Lieberthal
DATE: January 17, 2013
BIG BET: Bringing Beijing Back In



Your rebalancing strategy toward Asia has produced desirable results, including convincing China that the United States is serious, capable and determined to be a leader in the region for the long term. But this strategy is also generating dynamics that increasingly threaten to undermine its primary goals. It is therefore time to rebalance judiciously the rebalancing strategy, and China's leadership change provides you with an opportunity to do so.

Your objective should remain an Asia that, five-to-10 years from now, will contribute substantially to global and U.S. economic growth and will mitigate security dilemmas that drain American treasure and reduce the region's economic dynamism.

Unfortunately, at this point your current strategy is in danger of actually enhancing rather than reducing bad security outcomes. Most notably, territorial disputes have become sharper, and Beijing is largely operating under the false assumption that the flare-up of these disputes reflects an underlying U.S. strategy to encourage Japan, Vietnam, and the Philippines to push the envelope in the hope that Chinese responses will lead those countries – and ASEAN – to become more united and dependent on the United States.

Welcome mats for our increased security engagement are now being laid out around the region. This is satisfying in the short term but carries longer-term risks. U.S. friends and allies are encouraging the United States to enhance its security commitments, but they are also tying their economic futures to China's growth. The United States is thus in danger of having Asia become an ever greater profit center for China (via economic and trade ties) and a major cost center for the United States (via security commitments), especially if the Trans-Pacific Partnership (TPP) does not develop as hoped.

Recommendation:

To shift this trajectory, you should take the initiative this spring to solidify and strengthen the core bilateral relationship with China while continuing to provide reassurances to allies and partners of U.S. staying power in the region. Nobody in Asia wants to have to take sides between the United States and China, and none any longer fear a G-2. All seek “wise management” of U.S.-China relations. An initiative that improves U.S.-China relations and contributes to regional stability can, therefore, potentially enhance U.S. position throughout Asia.

Background:

China’s leadership change presents an opportunity. Xi Jinping fears serious challenges to the Chinese system if he cannot improve relations with a population that has become increasingly vocal, critical and nationalistic. Xi knows he must significantly alter a development model that is exacerbating social and political tensions, even as the rate of growth slows.

Early indications are that Xi is more open and politically agile than was Hu Jintao, but his specific priorities and capacity to effect change are not yet known. He may take a strong stance on regional issues to signal China’s determination or he may welcome a chance to tamp down international tensions to focus more on domestic transformation. You should give him a clear option to pursue the latter approach.

Specifically, you should offer Xi a game-changing opportunity to put U.S.-China relations on a more predictable long-term footing that protects critical Chinese equities but also requires that China engage more positively on key bilateral, regional and global issues. Any U.S. policy that moves the needle on China’s behavior will be welcome throughout Asia.

Beijing is bureaucratically incapable of taking the initiative to suggest the ideas recommended below. Xi will want the United States to put cards on the table to which he can then respond – and then the real negotiation will begin. That lets you shape the opening agenda.

The strategy is to offer Xi full good-faith efforts to deal with key irritants, *provided China works with your administration on the areas of major U.S. concern indicated below*. You can do important things to change Beijing’s calculus of American intentions while also advancing specific U.S. interests.

I recommend that you engage with Xi Jinping early on in order to establish a strong personal relationship with him. Use this to propose working out a four-year framework for U.S.-China relations that establishes a solid foundation of trust for the next one-to-two decades and provides substance to China's mantra of "a new type of major power relationship." Suggest that at least four times per year you and he hold half-day summits – not one-hour bilaterals – on the margins of multilateral events. Substantively, you might raise the following for consideration:

- The current Strategic & Economic Dialog (S&ED) is structurally very awkward for China and has never produced a sustained dialogue across the economic and foreign policy spheres. Propose that it be repackaged into a political and military (pol/mil) dialogue that is sustained (rather than a brief annual meeting) and a separate economic dialogue that closely parallels the Strategic Economic Dialogue that former Treasury Secretary Paulson led.
- For the pol/mil dialogue, suggest an enhanced Strategic Security Dialogue (SSD) that convenes four day-long meetings a year, with each side establishing a working group for ongoing liaison. The Strategic Security Dialogue, which met briefly twice under the S&ED, is the only formal U.S.-China dialogue that brings together military and foreign policy leaders in the same room. At least two of the enhanced SSD meetings should exclusively address overall U.S. and Chinese security postures in Asia a decade hence – basic thinking, pertinent doctrine, core concerns/interests, and areas where mutual restraint may benefit both sides. The United States has never held such discussions with China, and they may be critical for building strategic trust.

U.S.-China military-to-military (mil-mil) relations lag far behind those of their civilian counterparts. Suggest several initiatives to relieve some of the strain in that sphere. The PLA sees restrictions on inviting them to military exercises as indicative of hostile U.S. expectations of the relationship. You can indicate the possibility you will use your waiver authority to permit PLA participation in various future U.S.-organized military exercises (Defense Secretary Panetta has already done this for RIMPAC 2014). You might also offer serious discussions on military cooperation to assure better the ongoing flow of reasonably-priced oil from the Persian Gulf.

Relatedly, maritime territorial disputes are feeding China's wariness about U.S. strategy in the region. You can offer to clarify authoritatively our principles to reduce Chinese suspicions. Such clarification would make clear that: The United States will take no position on sovereignty in territorial

disputes to which it is not a party; the United States supports an ASEAN collective negotiation with China on a Code of Conduct in order to reduce the potential for territorial disputes to escalate, but does not seek Chinese negotiation with all of ASEAN on resolving territorial disputes; and the United States will adhere to its core principles of peaceful management of disputes, freedom of navigation (including in Exclusive Economic Zones), and normal commercial access for American and other firms to maritime resources.

You can suggest various initiatives to enhance economic cooperation. These might include, for example, intensifying negotiations for a U.S.-China Bilateral Investment Treaty; inviting China to engage on the TPP when Beijing feels it is able to do so; completing the years-long technology export policy review, which can help U.S. business while also removing serious irritants in U.S.-China economic relations; directing the Department of Commerce and the U.S. Trade Representative to establish a consultative arm to help Chinese firms understand the pertinent U.S. investment laws and regulations; and indicating U.S. interest in working with China at the Clean Energy Ministerial to develop cooperative ways for major emitters to improve their capacity to deal with climate change.

The above highlights the scope and some of the content of what you might indicate to Xi that you are prepared to move forward on as a package, *if Xi will put together a comparable level of efforts on the following issues:*

- Mitigation of tensions over maritime territorial disputes
- More extensive U.S.-China mil-mil engagement and discussion of long-term strategic postures in Asia
- North Korea's nuclear and missile programs
- Opening additional areas of the Chinese economy (especially in the service sector) to American investment
- Strengthening enforcement of intellectual property protections and engaging on cyber-security threats
- Joint initiatives on climate change

Conclusion:

Xi may be unable or unwilling to respond significantly to your offer. But taking this wide-ranging initiative early on costs little or nothing, since you would be seeking to begin a reciprocal negotiation, not to commit the United States to unilateral actions. The payoff is potentially very large in reshaping Chinese and American behavior in ways that will make our overall rebalancing strategy a long-term region-wide success.