



## **Finding Commonality** by Laurence Brahm

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On April 1, Chinese President Hu Jintao invited President Barack Obama to visit China later this year. It is unprecedented for a U.S. president to visit China so early in a new term; the trip symbolizes the beginning of a new epoch in U.S.-China relations.

To ensure this new beginning does not fail, U.S.-China dialogue should be constructed around three principle issues: the financial crisis, security, and climate change. Cooperation on these three principle points appears imperative, obvious, and to be in the two countries' mutual interest. The dialogue should be set along a Chinese psychological framework that seeks guiding principles rather than tailored to the Beltway paradigm. In short, in a Chinese political context, form is more important than substance.

The three principle issues may be presented as **"three points of cooperation"** (*sange hezuodian*) as commonalities can be discussed at the outset. This will avoid the sometimes confrontational approach of previous administrations that did not yield realizable benefits. Likewise, there should be no illusions that face-saving mechanisms will avoid all or even most problems. The very nature of the two different political, social, and value systems means that complications are inevitable, and given the state of the global economy, the relationship's complexity will increase in the months ahead. The three points of cooperation are intended to offset this inevitability by starting a dialogue with the right tone and by folding these differences into a structure of commonality. Anticipation of clashes will avoid intractability.

***The first point of cooperation should be in the area of finance and investment.*** President Obama's priority is encouraging China's continued purchase of U.S. bonds to underwrite the cost of printing unprecedented amounts of money for the stimulus package. China has no choice unless it wants to see inflation and dollar depreciation that will wipe out the value of the Federal bond portfolio managed by the State Administration of Foreign Exchange (SAFE). However, as a hedge strategy, SAFE, has already divested from long- and medium-term bonds to short-term ones (even at zero interest) to retain liquidity. Diversification away from dollars into European currencies has emerged as a significant pattern in recent months. Threat of a bond fire sale may also be intended to keep Obama in check. While important, the Obama administration needs to be careful to not over-focus on China's bond purchases and send the message that its financial distress has created dependency.

The investment equation is equally important. China has money to spend on hard assets and is already increasing U.S. share purchases. A smart China will buy real businesses, even rusted ones, and not just paper. Obama should turn trend into policy by launching a package of incentives that encourages direct Chinese capital investment in faltering sectors like autos and real estate. Offer unprecedented tax breaks -- exemptions and deductions -- as China offered U.S. companies two decades ago when it needed money to rejuvenate its own industries. These are incentives the Chinese will understand and appreciate. And by doing so, the U.S. can reverse the FDI Gap and achieve effective "Trade Gap Dollar Recycling."

Chinese firms may hesitate to invest overseas after China's sovereign investment fund China Investment Corporation stumbled out of the gate with a failed investment in Blackstone. To counter Chinese fears, the U.S. Embassy in Beijing and consulates should have an organization similar to the China Commission for Promotion of Investment and Trade (CCPIT), which guides enterprises and financial institutions into investing in the right industries and sectors. CCPIT and various government-backed advisory groups have guided CEOs investing in China for two decades. U.S. legal and accounting firms in China, once focused on supporting U.S. investments in China, should change course and work with Chinese investors heading for the U.S. By investing in the U.S., China will not take U.S. businesses from Americans. It may help stimulate more jobs in both white- and blue-collar industries.

For instance, in an economic downturn, U.S. automobile manufacturers may be forced to shut down their China operations, passing the unemployment problem back to China unless China can become a stakeholder. If China invests in the U.S. domestic automobile industry in a big way, then assurances can be made that factories in China will remain open. China has played the economic and business card in its dealings with the U.S. and Europe; now it is time to play this card ourselves. The Chinese will understand.

Moreover, export education: let rich Chinese send their children to our schools. They will buy apartments and consumer brands. Most likely, really smart Chinese students will stay and work in the U.S. Meanwhile we will be earning foreign exchange, while investing in our own future.

While this approach might be a difficult sell to Congress, the economic crisis calls for creative approaches and thinking "outside the box." Why should the U.S. be afraid of Chinese in-bound investment? They have proven bad at management outside the Great Wall and they will probably need to liquidate investments when they become stuck in our system (just as many U.S. companies have become stuck in theirs).

***The second point of cooperation is security.*** President Obama may ask China to partake in the reconstruction of Afghanistan, but China will not fall into this trap. China's neighbor policy is *ge an guan huo* -- "watching the fire from across the river" -- especially when it comes to problems beyond its capacity. Washington may leverage the Himalayan Consensus approach (emphasizing grassroots cultural sustainable development, economic and identity empowerment, and education as means of stabilizing societies) to shift from hard- to soft-power tactics.

A tectonic fault of potential political instability runs from Afghanistan, Pakistan, India, Nepal, to Bangladesh and Myanmar. On China's side of these borders are Xinjiang and Tibet. This Himalayan chain could become chaotic if mismanaged; with proper policies and peace, the region could become the next regional economic growth engine.

Policy coordination between these South Asian countries, the U.S., and China should top agendas to defeat terrorism at its roots. Economic depression and ethnic identity suppression play a major role in the rise of terrorism as they lead people down fundamentalist paths. Establishing a joint Himalayan Initiative, a regional IMF equivalent with joint U.S. and Chinese funding together with all stakeholder nations in the region, is an approach that is not only palatable to all but effective in preventing terrorism by attacking its roots -- poverty and disillusionment.

***The third point of cooperation is acting quickly against climate change.*** Of all the issues on the U.S.-China strategic agenda, environmental protection is the one point where agreement can most easily be reached. We face an imminent humanitarian and natural disaster of unprecedented scale. China is the largest polluter on the planet followed by the U.S. and India. Debates over who has the right to pollute more than others are self-defeating and irrelevant. We need mechanisms for alternative energy and water waste reduction immediately. This will require developing, adopting, commercializing, and installing new technology as quickly as possible, something that may not be in tandem with blind GDP growth policies. Turning principles into workable policy will expose rifts in developmental priorities and national values that could derail the consensus process.

Under the umbrella of environmental issues can be imbedded a broader agenda for human rights, religious tolerance, ethnic diversity, and cultural sustainable development. These issues are connected with a sustainable environment and the role of indigenous ethnic groups in maintaining a balance of biodiversity, often through religious beliefs. While I recognize that not all human rights issues can be folded into the environmental agenda, it is an umbrella that covers many issues and allows for progress in a context where rational dialogue can begin on topics China normally skirts or overreacts. Of all the issues on the bilateral agenda, global warming and the environment may be the only one where commonality can be found.

One problem the Obama administration faces is how to adjust the strategic economic dialogue put in place by former Treasury Secretary Hank Paulson. The new administration wants to expand this into a strategic dialogue that embraces

issues other than economics. Shifting a large part of this function to the State Department will create two parallel tracks. This approach departs from Paulson's original intention. His business background made him aware of the problem in making policy "stick" in China due to difficulties of coordination between government departments.

Vice Premier Wang Qishan was a key figure in coordinating policy when he served as advisor (and frequent hatchet man) for former Premier Zhu Rongji. Zhu was largely responsible for China's transition from planning to market through the creation of several state-level commissions for facilitating inter-departmental coordination. Shifting much of the dialogue to the State Department effectively downgrades or at least narrows Wang Qishan's involvement, and increases the involvement of State Councilor Dai Bingguo and the Foreign Ministry system under his portfolio. By its very nature, the Foreign Ministry does not coordinate with other departments and may prove to be an obstacle in this process. By structuring the dialogue to match the interests of Washington politics, the purpose of this dialogue is being undermined.

A more logical and ultimately more effective approach would establish a new entity or commission separate from State and Treasury to lead a broader strategic dialogue. This new entity would coordinate State, Treasury, Defense, and Intelligence approaches to China. Furthermore, the strategic dialogue needs to be conducted throughout the year with a specialized office in Beijing to hold regular and ongoing discussions to have real progress on key issues and avoid the probability of intractability discussed above.

The "Three Points of Cooperation" can serve as a framework for different departments and aid agencies of the U.S. government to engage China in a more rational and more progressive dialogue. One or two meetings a year between ministerial-ranked leaders on both sides serves no effective purpose other than grandstanding for media. The issues are too complicated and the economies of both countries too intertwined. The potential downside political ramifications are too acute. Both sides cannot miss the opportunity for extensive and in-depth understanding of issues of mutual concern and achieving meaningful progress. It is time to establish a proper framework for dialogue. The U.S., China, and the world have a key stake in finding commonalities.