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Xi-Obama Summit to Build Rapport as North Korea Beats Yuan (1)

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In April 2006, President George W. Bush rearranged the name cards at a White House lunch with Hu Jintao, seating the Chinese president next to him instead of across a table so they could talk privately.

Bush wanted to talk about North Korea. Days later, a Chinese diplomat visited Pyongyang to push dictator Kim Jong Il to return to nuclear talks. Within a year, the North agreed to shut down a reactor that made weapons-grade plutonium, recalled Paul Haenle, executive assistant to U.S. National Security Advisor Stephen Hadley at the time.

Bush and Hu's successors -- Presidents Barack Obama and Xi Jinping -- will get a similar chance to move beyond talking points when they meet June 7-8 in California. Unlike during the global credit crisis when economic strains were at the forefront, the two leaders confront tensions over issues including cybersecurity, North Korea's renewed nuclear ambitions and China's concern over the U.S. strategic shift toward Asia and away from the Middle East.

"What these two leaders need to do is really begin to establish a working relationship," Haenle, now director of the Carnegie-Tsinghua Center for Global Policy in Beijing, said in an interview. "The biggest problem we have had in our interaction with China is that it has been very stilted, and very much in accordance with scripted talking points."

Xi is set to meet Obama at Sunnylands, the Annenberg family estate in Rancho Mirage, following his visits to Trinidad and Tobago, Costa Rica and Mexico. It will be their first meeting since Xi took over as general secretary of China's Communist Party and then state president in a once-a-decade power shift that ended in March.

Damp Expectations

Both governments have sought to damp expectations for firm results from the meeting. Deputy White House Press Secretary Josh Earnest said May 31 it's "intended to be an informal gathering."

"For a state visit we would have to spend so much time and energy on the formalities and the protocol," Cui Tiankai, China's U.S. ambassador, said at the Center for Strategic and International Studies in Washington last month. "It may not have a long list of what we call deliverables but it will enable our cooperation to deliver much more in the future."

Hu's 2003-2013 tenure as China's president was marked by formal meetings with Bush and Obama and few opportunities for unscripted talk. The California meeting hearkens back to the era of Jiang Zemin, who met Bush at his Texas ranch in October 2002 and was known for a less stilted style than Hu, his successor as Chinese leader.

Crooning Elvis

Jiang recited part of the Gettysburg Address in a 2000 "60 Minutes" interview and crooned Elvis Presley's

“Love Me Tender” at a meeting in the Philippines in 1996.

“Especially in a non-democratic country like China, the leader’s personal investment in good relations with the U.S. is one of the greatest diplomatic assets we can have,” Susan Shirk, a professor at the University of California, San Diego, who was responsible for China affairs at the U.S. State Department from 1997 to 2000, said in an e-mail.

Xi said last week in a meeting with U.S. National Security Advisor Tom Donilon in Beijing that China wants a “new type of great power relationship” with the U.S. Other Chinese officials including General Fan Changlong, vice chairman of the party’s Central Military Commission, repeated the phrase.

Cold War

Shen Dingli, director of the Center for American Studies at Fudan University in Shanghai, said the new relationship is best defined by what it isn’t: the Cold War relationship between the U.S. and Soviet Union where the two had opposing ideologies and were locked in an arms race.

The U.S. and Chinese economies, the two biggest in the world, have become more intertwined. China is the largest holder of U.S. treasuries, while it’s also a manufacturing base for goods sold by companies including Apple Inc. ([AAPL](#))

Last week, Chinese pork producer Shuanghui International Holdings Ltd. offered to buy Smithfield Foods Inc. ([SFD](#)) The deal is valued at \$7.1 billion including debt, and, if approved, will be the biggest Chinese acquisition of a U.S. company.

“It’s more constructively cooperating, especially on regional stability and global governance issues,” Shen said in an e-mail.

Economic changes may make that task easier. The combination of a rising yuan and a recovering U.S. economy means that disputes over the currency and the trade deficit don’t dominate the conversation with China as they did after the 2008 financial crisis, said Eswar Prasad, the former head of the International Monetary Fund’s China division who is now a professor at Cornell University in Ithaca, New York.

Economic Growth

China’s gross domestic product expanded at the slowest rate in 13 years last year. Chinese export growth -- once the driver of the economy -- is slowing as the yuan continues to gain in value, with the U.S. in March posting the lowest trade deficit with China in three years. Today the People’s Bank of China boosted the yuan’s reference rate to a record 6.1735 per dollar.

“The two countries appear to have moved beyond irritants like China’s currency regime,” Prasad said in an e-mail. “Leaders in both countries are focused on stabilizing their economies and pushing forward with domestic economic reforms, easing bilateral tensions and creating the space for progress on reducing barriers to their closer trade and financial integration.”

Growing Threat

Now, the two countries are at loggerheads over cybersecurity. In a June 1 speech at the Shangri-La Dialogue security forum in Singapore, U.S. Defense Secretary Chuck Hagel singled out China to an audience that included members of the country’s military.

“The United States has expressed our concerns about the growing threat of cyber-intrusions, some of which appear to be tied to the Chinese government and military,” Hagel said.

China is also suspicious about the U.S.’ strategic pivot toward Asia, under which it is stationing more Marines in Darwin, Australia for what will eventually be a 2,500-member force. On June 2, Hagel went aboard the USS Freedom, a littoral combat ship that docked in Singapore as part of its maiden deployment to Southeast Asia.

Even with those concerns, Xi’s main focus is on the domestic economy, and he wants to avoid history repeating itself with the U.S. after disagreements that marked Obama’s first term, Shen said.

Ties Advanced

In 2009, Obama’s first year in office, some Bush administration officials including Haenle stayed on at the White House to keep relations smooth. The U.S. president visited Beijing that November.

Two months later, then-Secretary of State Hillary Clinton called on U.S. companies to resist censorship as Google Inc. criticized China for pushing the Mountain View, California-based company to filter its search results. That same month, the U.S. announced a \$6.4 billion arms sale to Taiwan.

“China wants Xi’s first year in office to be marked by better ties with the U.S.,” Shen said. “So China wants to have a great first year, and over the next few years wants to avoid the repetition of the turbulence.”

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