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UPDATE 3-Obama names Republican governor as envoy to China

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* Obama cites importance of U.S. envoy to China post

* Huntsman, a Republican, was ambassador to Singapore (Adds details on Huntsman, meeting with Obama)

By Matt Spetalnick and Emily Kaiser

WASHINGTON, May 16 (Reuters) - U.S. President Barack Obama on Saturday named the Republican governor of Utah to be the next U.S. ambassador to China, a pivotal post in relations between the United States and a major emerging economic power.

Jon Huntsman Jr., 49, a Mandarin-speaking former U.S. trade official with deep personal and family business ties to China, takes on a delicate diplomatic role with a vital trading partner and one of the biggest sources of financing for the growing pile of U.S. government debt.

"This ambassadorship is as important as any in the world because the United States will best be able to deal effectively with the global challenges of the 21st century by working in concert with China," Obama said at a White House ceremony with Huntsman at his side.

But Obama also used his nomination of Huntsman, a former ambassador to Singapore who was co-chairman of Senator John McCain's presidential campaign and has been mentioned as a potential Republican presidential candidate in 2012, to send a message to China's communist leadership.

"Improved relations with China will require candor and open discussion about those issues where we don't always agree, such as human rights and democracy and free speech, and will require that each of our nations play by the rules in open and honest competition," Obama said.

Huntsman is the son of billionaire philanthropist Jon Huntsman, and his family founded chemical company Huntsman Corp, which has operations in China, including a factory in Shanghai. One of Huntsman's seven children, daughter Gracie Mei, was adopted from China.

Huntsman quoted a Chinese aphorism as he accepted the nomination on Saturday, which he translated as, "Together we work, together we progress."

"This more than anything else, I think, captures the spirit of our journey going forward," he said.

In a 2006 speech at Shanghai Normal University, Huntsman urged bilateral cooperation to foster peace and economic prosperity on both sides of the Pacific but also had some stern words about how environmental damage in Asia hurt wildlife in his home state of Utah.

A senior administration official said Huntsman was seen as a problem-solver rather than a dogmatist, and called him a "'no drama Obama' type" who was fluent in the language and culture and well versed in critical issues affecting the region.

Obama called Huntsman to offer him the post on May 5, and he accepted. The two met in the Oval Office one week ago, while the governor was in Washington for the annual White House Correspondents dinner.

TRADE, CURRENCY FRICTIONS

Eswar Prasad, a senior fellow at the Brookings Institute and previously head of the China division at the International Monetary Fund, said Huntsman's diplomatic skills "will be tested to the limit as there are many potential sources of conflict between China and the U.S., especially on trade, currency and environmental policies."

"Once the world economy stabilizes and the worst of the (financial) crisis is behind us, these simmering tensions will come bubbling back to the surface," he added.

Obama's administration has stopped short of accusing China of keeping its currency artificially low in order to boost exports, but some in Congress would like to see the United States formally accuse China of manipulating the yuan.

The U.S. trade deficit with China hit a record \$266.3 billion in 2008, but both countries are feeling the pinch now because the global recession has clobbered world trade.

Obama, like his predecessor George W. Bush, has been mostly low-key in any criticism of China's human rights record.

Washington is mindful of its need for Beijing's cooperation in curbing the global financial crisis and reining in North Korea's nuclear ambitions.

Huntsman served as deputy U.S. trade representative in the Bush administration from 2001-2004, and was U.S. ambassador to Singapore from 1992 to 1994 when Bush's father was president.

China is among the largest buyers of U.S. government debt, with \$767.9 billion as of March, according to Treasury Department data released on Friday. Washington is keen to maintain a strong relationship -- particularly now as the \$787 billion stimulus package and \$700 billion financial bailout fund have strained public finances.

If China pulled back on its purchases of U.S. bonds, it could drive up interest rates, making it more expensive for the government to finance its growing debt pile and for consumers and companies to borrow money.

Obama's choice of a Republican for such a key post could signal that the Democratic president has not abandoned his pledge to seek bipartisan cooperation. Since taking office in January, he has mostly relied on a Democratic majority in Congress to push through his legislation.

The ambassador post requires Senate confirmation. (Additional reporting by Lisa Lambert, editing by Vicki Allen and Paul Simao)

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