



America's China Brigade

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Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
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A Washington insider offers the lay of the land.

Hu's up, Hu's down in U.S. China policy.

BY CHRIS NELSON

At the geostrategic level, U.S.-China relations have never been stronger, with surprising levels of coordination on Iran at the United Nations, and very close cooperation on the North Korea nuclear crisis. But trade relations, under the burden of continual pressure from both Capitol Hill and the emerging contradictions of the global economy, are now trending toward the “difficult.”

This should not have been a surprise.

A little more than a year ago, then-U.S. Trade Representative and former Congressman **Rob Portman** warned the People's Republic of China that with its five-year World Trade

Trade relations, under the burden of continual pressure from both Capitol Hill and the emerging contradictions of the global economy, are now trending toward the “difficult.”

Organization membership anniversary coming up, the Administration was heading toward a much more robust enforcement approach to trade disputes, if bilateral negotiations continued to lag on everything from currency and foreign exchange rates to intellectual property rights and export subsidies.

Suddenly this spring, the White House, USTR, and Department of Commerce jointly declared “time's up,” and a series of carefully drawn

WTO cases have been initiated in all but the currency/exchange rate debate—especially a controversial decision to declare China “eligible” for countervailing duties cases, even while maintaining the country's “non-market economy” status.

Beijing has reacted sharply, but so far in words only. It remains to be seen whether bilateral consultations can head off a formal WTO dispute resolution process, and if not, whether

taking things to the international level will affect the non-trade aspects of the relationship, including the tone and results of upcoming, high-level bilateral consultations.

Looking back, we can see that current events are what was expected, back when **George Bush** was inaugurated president in January 2001. At that time, most experts, pundits, and inside-the-Beltway types who make their living being clever about China were confident there would be a change in style, rhetoric, and substance from the Clinton Administration.

We didn't doubt that the basic business-focused approach would continue to dominate day-to-day relations, especially as the complex dance surrounding China's entrance into the WTO would require concerted attention to complete.

But it seemed obvious that Bush would pursue the broader Asia policy outlined by his long-time weight lifting partner and friend, **Richard Armitage**: a focus on boosting the rearmament and international position of Japan, and refurbishing U.S. alliance relationships across Asia, and over to India and Central Asia, as a hedge against what has come to be called China Rising.

Armitage argued that the Clinton Administration had been a little too soft on China, but so aggressive in its trade policy that the critical importance of the larger U.S.-Japan strategic relationship was being neglected.

It's Congress, of course, that provides a constant drumbeat of pressure on trade. Even during the halcyon days of U.S.-People's Republic of China trade promotion and working with Beijing to gain membership in the World Trade Organization, it was Congress that applied a constant reality check on what even then were seen as the risks of China's low-wage, increasingly sophisticated export machine to the globalized economy.

Chris Nelson is Senior Vice President of Samuels International Associates, Inc., and editor of The Nelson Report.



George Bush

Bush Realpolitik

It may seem strange to have to say this, but China policy in the Bush Administration really *is* run by the President. And he quickly put China in a special box within the “Freedom Agenda,” marked, “Open only after mature capitalism takes over.” It’s a rare example of Bush realpolitik, although the current initiative in the Middle East may provide another.

—C. Nelson

quo, the delicate and ambiguous “peace” between Beijing and Taipei on which stability and economic growth for Northeast Asia had rested since the Nixon Administration.

That’s why Taiwan’s leader quickly found himself in the Bush dog house, Chen’s “crime” being to threaten political initiatives that risked a Chinese overreaction at a time when Washington’s need for Chinese cooperation was growing, and which reflected a willingness to risk the status quo. (Chen still takes these initiatives, by the way, with-

The President may be in charge of the “relationship,” but it’s Congress applying the whip on “enforcement” of trade deals—a marching song which has increased, since 2001, into a constant roar today.

Back in 2001, on the always thorny issue of Taiwan, all the experts were confident that this Republican president would be tougher on China, and far more accommodating to the then-newly elected Democratic Progressive Party government of **Chen Shui-bian**.

And on dealing with China’s client state, North Korea, all took at face value the promises of Armitage, and his friend and patron, Secretary of State **Colin Powell**, that Clinton’s forward-looking engagement with Pyongyang would continue, but with sharper elbows, and more focus on results-oriented diplomacy on conventional military threats and human rights.

Except for the Japan alliance part, and the ring of potential bases around China, boy were we wrong. In private, and in terms of attitude, Bush has been almost as tough on Taiwan’s Chen as he has been on an obviously very different actor, North Korea’s **Kim Jong-il**. (Although while he basically junked the Clinton policy of engagement with the DPRK, he has been forced by the reality of Kim’s nuclear bomb to try and revive it.)

Even more than by trade and geopolitics, U.S.-China relations are often defined by the situation between the People’s Republic of China and Taiwan, and especially on Beijing’s sense of whether the United States is keeping its promise not to encourage formal, legal independence for the former Republic of China.

At some risk to relations with Beijing, Bush has continued the traditional, comprehensive arms sales to Taipei of his predecessors. These are based on the moral and strategic obligations of the Taiwan Relations Act, and the realpolitik calculation that in the absence of an unexpected rapprochement, a semblance of military balance in the Strait dividing the island from the mainland is required to maintain the peaceful status quo.

All of Bush’s subsequent policies and attitudes must be viewed through that prism: Do nothing to upset the status

out consulting his American quasi-ally.)

Bush’s “larger concerns” approach became clear during the U.S.-China crisis over the “EP-3 Incident,” a mid-air collision over Hainan Island in April 2001, and they were cemented after September 11, 2001, when Bush began to apply to Chen the same acid test which has over-simplified U.S. foreign policy since that terrible day: “Are you with my global war on terrorism program, or not?” To the extent Chen complicated U.S.-China cooperation, he was not.

Friends of Taiwan note the unpleasant irony that now both Bush and China’s president **Hu Jintao** have the same policy toward Chen and the DPP, which is to wait out the remaining year of his term and hope his successor will come from the presumably more pliant KMT (Kuomintang).

With that overview, let’s take a look at the players and organizations now developing and implementing U.S. policy on China.

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As the Administration worked through its first term, U.S.-China policy gradually evolved into a creative tension between the brilliant but high-maintenance **Bob Zoellick**, then-U.S. Trade Representative and ultimately Deputy Secretary of State, representing the traditional, business engagement approach, and

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Chen Shui-bian



Kim Jong-il

the more Defense Department-oriented, intelligence-focused players increasingly concerned about “China Rising.”

To counter the pervasively negative influence of then-Defense Secretary **Donald Rumsfeld**, Zoellick came up with the compelling concept of challenging the PRC leadership to embrace a “responsible stakeholder” role, and its responsibilities, for China’s participation in the world.

The gist of this, first unveiled to that important group of past, present, and future players at the National Committee on U.S.-China Relations, was that the PRC’s pursuit of assumed self-interest, whether in Sudan, or with North Korea, would risk self-defeat if it failed to grasp the responsibilities inherent in becoming a major player in world affairs.

Joint responsibility for the international system was the real definition of self-interest for China, Zoellick argued, because it had acquired a profound stake in preserving the peace and stability necessary for economic development. Failure or refusal to act positively on this concept, he warned, would seemingly justify the concerns of not just hard-liners in the United States who argued that “China Rising” was an inherent threat to U.S. interests now and in the future. Even mainstream foreign policy thinkers would be increasingly reluctant to tolerate Chinese “free-riding.”

(A nasty but telling Zoellick story, from a press colleague: “**Condi [Rice]** lets Bob do whatever he wants, just so long as she doesn’t have to talk to him about it.”)

Zoellick’s idea captured, if somewhat confused, the Chinese imagination, and it remains the operative Bush Administration philosophy on China engagement today, despite the best efforts of Rumsfeld and remaining hard-line analysts in the Administration or in some think tanks around town. The great bulk of the mainstream China policy community has embraced “responsible stakeholder,” as has the current Cabinet overseer of China policy, Treasury Secretary **Hank Paulson**.

This then is the background, the playing field for that loose network of China experts, scholars, soldiers, diplomats, politicians, and business folks who make up the China policy universe in Washington, and whose interactions help formulate and carry out Bush Administration relations with China today.

Policy today is, of course, also a result of the Congressional byplay with the office of the U.S. Trade Representative and Department of Commerce on enforcement of China’s WTO promises, and Capitol Hill’s efforts to somehow legislate a reduction in the massive, ever-increasing bilateral trade deficit—see current bills aimed at defining currency manipulation and unfair subsidies eligible for action under U.S. trade remedy laws.

■ The White House



Josh Bolten

China policy starts with the President, who gives broad direction, even on day-to-day matters he deems important, often directly, more usually through his enormously respected Chief of Staff, **Josh Bolten**. Bolten’s role as liaison to the Cabinet, and in particular, his long-time personal friendship with former Senate staff colleague, now U.S. Trade Representative Sue Schwab, cannot be exaggerated.

Day to day, especially on non-trade matters, it’s not National Security Advisor **Steve Hadley**, but Senior Director for Asia **Dennis Wilder**, in charge of implementing the Bush will. Wilder, a respected veteran of the CIA, has had his ups and downs as an administrator.

He enjoys the trust and respect of both Bush and his professional staff colleagues across the government, and out into the land of think tanks and China specialists, many of whom would love to have his job. Indeed, Wilder is known to

reach out to many private experts for advice and counsel, a practice which puts him in the bulls-eye of certain hard-line, anti-China elements, who deride as “Panda Huggers” anyone not dedicated to the proposition that Rising China is an inherent evil, to be resisted on all points.

Also playing a major role at the NSC is the senior advisor for economics, **David McCormick**, who has succeeded the highly regarded Senate Finance committee staff veteran, **Faryar Shirzad** (now an investment banker with Goldman Sachs).

Vice President **Dick Cheney**? With the firing of **Don Rumsfeld** at Defense, Cheney’s willingness and/or ability to push the President into the hard-line camp has apparently disappeared. But on China relations, somewhat to the surprise of many, Cheney has generally supported the Bush inclination to treat Beijing with balance and respect.

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The State Department



Condi Rice

Secretary **Condi Rice** has little to do with China, and even less Asia expertise. The exception to this is Rice's deep and risk-taking personal involvement in the North Korea nuclear negotiations.

With the departure of Zoellick, the new Deputy Secretary, seasoned foreign service officer **John Negroponte**, will oversee the Department's various Asia-focused activities and professionals, including coordinating with Commerce the annual Joint Committee on Commerce and Trade meetings.

With the departure of Zoellick's chief of staff, **Chris Padilla**, now the Assistant Secretary of Commerce for enforcement activities, it's not clear who will do Negroponte's downfield blocking at the interagency level.

In today's National Security Council/CNN-dominated foreign policy process, it's an unusual ambassador who is at the top of the list of key policy players and advisers, but former Bush Yale roomie **Clark "Sandy" Randt** is Exhibit A of that now-rare species. Like his counterpart in Tokyo, former Bush Texas Rangers baseball partner **Tom Schieffer**, Randt can, and does when necessary, pick up the phone and get the White House's attention.

This is really the pre-World War II model of how ambassadors function, but Randt, like Schieffer, has the power and the skill to personally fix problems without running the thickets of the often brain-killing interagency process.

The able Princeton academic **Tom Christensen** is "the China DAS" (deputy assistant secretary) in the East Asia Bureau, with the full respect of his colleagues in terms of China expertise; but Christensen's learning curve on bureaucratic infighting, and NSC coordination, is still a work in progress.

Christensen's boss, Assistant Secretary **Chris Hill**, a former Ambassador to South Korea, has, like so many of his predecessors, found himself sucked into the crisis of the "moment"—North Korea, now going on for its sixth



WHITE HOUSE PHOTO BY PAUL MORSE

President George Bush looks on as Secretary of State Condoleezza Rice administers the oath of office to Deputy Secretary of State John Negroponte, February, 27, 2007.

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Sandy Randt



Christopher Hill

year—and thus unable to think about or act upon much else, to his obvious frustration.

By contrast, on the economics side, Assistant Secretary **Dan Sullivan** definitely has the time, Negroponte's ear, and that of his colleagues, on China.

Given the importance of coordinating U.S.-China-Taiwan matters, this list must include Taiwan Desk chief **Clifford Hart**, a respected veteran of the NSC before Wilder's promotion. "Ford" enjoys the full confidence of players in and outside the Administration, if not always the thanks of Taiwan's various friends in Washington, an often difficult, fractious group. He has joined Wilder in periodically required "secret missions" to Taipei.



Tom Christensen



Dan Sullivan

The Defense Department

The big thing on China policy isn't just the firing of Secretary **Donald Rumsfeld**, but the hiring of former CIA director, and **Brent Scowcroft** protégé, **Bob Gates**. Rumsfeld had to be ordered by the White House before he would accept a meeting with the then-incoming President of China, **Hu Jintao**, and he gave full access and credence to the militantly anti-“China Rising” theologian **Andy Marshall**—a white-haired veteran reputed to have been at DoD since its founding, in 1947, although that may be urban legend.



Andy Marshall

Gates has already started to play a role suited to uber-realism, and friends acquainted with his views feel that Marshall will not continue to enjoy the easy access and influence of the past. That remains to be tested. Gates is said to talk daily with Scowcroft, and frequently with former President Bush, among other valued “kitchen cabinet” advisers.

In the meantime, DoD Asia policy writ large, especially on China, until quite recently was firmly served by CIA veteran and Deputy Undersecretary **Richard Lawless**, who resigned in April for personal reasons. His formal appointment as Assistant Secretary for Asia under the new DoD authorization act was “inside knowledge” for months, yet never announced.

During his time at DoD, Lawless recruited the highly respected CIA National Intelligence Officer for Asia, **James Shinn**, as his deputy assistant secretary for China, and Shinn is rumored as a potential replacement. This means a major change in DoD hands-on experience with Japan and Korea, and potentially in interagency clout, although Shinn is well-known and respected. Shinn's personal story is an inspiration to all us staffers and would-be capitalists. He quit government early and made his millions in Silicon Valley, only to come back into government after a stint at the Council on Foreign Relations.

In the past fifteen years, the role of the senior U.S. Navy officer in the Pacific, whether as COMPACFLT (the fleet) or Commander, PACOM (the overall military commander), has become increasingly important in U.S.-China relations and policy.

Starting with then-Admiral, then-Ambassador to China **Joe Prueher**, through to Admiral **William Fallon**, now given the dubious honor of overall commander for the Middle East, the Navy has been deeply involved in strategy to hedge on “China Rising,” and exchanges designed to push China on

Crewmembers from the Navy EP-3 aircraft involved in the 2001 accident with a Chinese F-8 aircraft are welcomed home at Hickam AFB, Hawaii. Their plane was forced to make an emergency landing on Hainan Island, China. The crew members were detained in China for eleven days.

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transparency about its military budget and intentions.

So the Navy often finds itself the target of hard-liners who do not like its assigned role of increasing the sense of trust and mutual confidence which often proves critical in times of crisis.

Just as Prueher enjoyed President Clinton's personal confidence, so Fallon obviously has the trust of President Bush, this in ways no other service can boast. Accordingly, the Navy and PACOM have built a serious support staff of regional and country experts.

It is not entirely coincidental that one of the most influential think-tanks in Washington is the **Center for Naval Analyses**. Run by retired Admiral **Mike McDevitt**, this DoD consulting operation is parent to the new China Studies Center, directed by **Dave Finkelstein**, and includes **Dean Cheng**, a frequent media commentator on China's military space program.



William Fallon



Mike McDevitt



DEPARTMENT OF DEFENSE PHOTO BY SSGT ADRIAN CADIZ, USAF

■ The Commerce Department

Quick: Name the Secretary of Commerce. Okay, but don't worry about it. The key China player at Commerce is Undersecretary for International Trade **Frank Lavin**, the Mandarin-speaking former Ambassador to Singapore, who will be in charge of the JCCT [Joint Commission on Commerce and Trade] process. Lavin has very close personal ties to senior White House political operatives, and is a tireless—and successful—promoter of U.S. trade interests throughout the region.

But with the rise of Congressional agitation on trade law enforcement, angst over China's persistent intellectual property rights cheating, and a general sense of lag in meeting its WTO obligations, Lavin and his colleagues increasingly find themselves sounding like USTR on a shrill day.



Chris Padilla

Recently Commerce has taken a somewhat more aggressive stance. It found in favor of a U.S. paper company and has ruled a Chinese company to be eligible for countervailing duty action. This marks the first CVD ruling since the 1980s, and the Chinese have gone slightly bananas. This case has the potential to set off a flood of U.S. companies coming forward, since previously many simply assumed the practice of Commerce was to say China as a non-market economy was not covered under WTO rules for a CVD remedy.

This more aggressive trend highlights the coming major role in China policy implementation for Assistant Secretary for Export Administration **Chris Padilla**, Bob Zoellick's former

*The key China player at Commerce is Undersecretary for International Trade **Frank Lavin**, the Mandarin-speaking former Ambassador to Singapore.*



chief of staff at State, and before that, Zoellick's chief of public outreach at USTR. Padilla is now in the final stages of formulating and issuing a highly controversial set of what business types claim are 47 dangerously restrictive, enormously costly licensing requirements.

Beijing, of course, is very displeased, and Paulson's Strategic Economic Dialogue is likely to get an ear-full on the subject, along with the JCCT, at their separate meetings this year.

Padilla has taken to this task with his customary aplomb, but it's a real role reversal from his 2000–01 days as one of the private sector's leading lobbyists for Congressional approval of PNTR (permanent normal trade relations) for China as a WTO member.

Also central to Commerce's role is Lavin's new Deputy Assistant Secretary for Asia, **Ira Kasoff**, a Ph.D. in Chinese history. He is just back from serving as the senior commercial officer in Shanghai, "ground zero for Commerce," as one wag put it. Kasoff replaces the enormously successful **Hank Levine**, now with **Sandy Berger's** Stonebridge International.



Ira Kasoff

■ The Treasury Department

Whoever serves as Secretary of the Treasury is automatically a senior player in China policy formulation and implementation. Wall Street investment power **Henry "Hank" Paulson** has slipped comfortably into this role, and is now responsible for the new, twice-annual Strategic Economic Dialogue (SED) process.

Paulson basically told the President, "I'm the 'inbox' for China, let me run it." That's the good news.

*U.S. Treasury Secretary **Hank Paulson** speaks at the Shanghai Futures Exchange on March 8, 2007.*



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Treasury, *continued...*

The bad news is that not only can you *not* run China policy from Treasury (State, Defense, Commerce, USTR and the National Security Council have something to do with

it!), Paulson wants to use the SED to secure “deliverables” on everything from trade and a currency float, to serious intellectual property rights enforcement. So far, at least, China prefers to see SED as an important long-range planning and talk shop.

At Paulson’s first SED meeting, in Beijing, his sherpa was the veteran USTR China negotiator, then business

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person, **Deborah Lehr**, but Lehr left suddenly for personal reasons. There was some gap before her successor, former PhRMA lobbyist **Alan Holmer**, was announced. The verdict on Holmer’s China and bureaucratic expertise is not in yet.

At the moment, the Chinese are being polite, but their immediate reaction was, “He isn’t [recently resigned Undersecretary for International Affairs] **Tim Adams**...or Deborah Lehr.” To the status-conscious Chinese, Holmer looks strictly working level. This can change, of course.



Tim Adams



Alan Holmer

■ The U.S. Trade Representative’s Office



*The current USTR, **Susan Schwab**, an academician and former Senate Finance Committee staffer, is popular, respected, and certainly “connected” through her friend White House Chief of Staff **Josh Bolten**.*

Left for last, but certainly not least, USTR is a key to the negotiating and enforcement function of the Administration. If not a central player on policy, per se, this may be changing, given the launch in April of potentially significant WTO cases on intellectual property rights enforcement, market access, and the “big one,” China’s state subsidies for exports.

If any or all of these end up in a formal WTO dispute resolution panel process, then USTR will be deeply involved in crafting both the policy and tactical decisions implied. Whether this will make USTR **Susan Schwab** a “policy player” rather than more of an implementer remains to be seen.

USTR is technically part of the White House staff, but from time to time, this Congressionally created, relatively streamlined professional bureaucracy has its boss granted Cabinet status. When Clinton campaign chairman **Mickey Kantor** sat in the Winder Building, his phone calls to Bill were answered, but maybe not for his successor, the hard working and professionally respected **Charlene Barshefsky**.



Bob Zoellick

Bob Zoellick demanded, and technically received, Cabinet status when Congress loudly reminded then-newly installed President Bush just who created the position. (It is a measure of reality, however, that Zoellick later accepted the non-cabinet status of Deputy Secretary of State.)

The current USTR, an academician and former Senate Finance Committee staffer, is popular, respected, and certainly “connected” through her friend White House Chief of Staff Josh Bolten. It is no fault of hers

that she is not a **Henry Paulson** or a **Bob Gates**, but if she plays an assertive role in the WTO/China process, she may yet reach that level, especially if hard work and ability have anything to do with it.

Given her critical involvement trying to keep the WTO Doha Round alive, the major China roles fall to Deputy USTR for Asia **Karan Bhatia**, a popular and successful veteran of the Commerce Department.

Bhatia is assisted by Mandarin-speaking and long-time Beijing business rep **Tim Stratford**, Assistant USTR for China Affairs. Given the increasing focus on trade law and WTO enforcement, the new General Counsel **Warren Maruyama**, until recently at Hogan & Hartson, will play a prominent role in both thinking and outcome.



Karan Bhatia



Tim Stratford