

## ***Obama-Xi Meeting Part I: A Backgrounder***

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China's President Xi Jinping is presently on a state visit to the United States of America and is scheduled to meet President Barack Obama on 25<sup>th</sup> September 2015. The two presidents last met in Beijing on the sidelines of the APEC Summit, when they concluded a historic climate deal and a path-breaking agreement to issue 10-year multiple-entry visas to citizens of either country. Earlier, during the Sunnyland Summit in 2013, they upgraded the U.S.-China relationship to the status of "a new type of major power relationship" – a rather sophisticated version of the popular G2 concept.

Given the precedence, this time too, some significant announcements are expected. Moreover, this, being the last Chinese state visit of Obama's presidency, both sides are likely to be under pressure to achieve some kind of significant breakthrough at the end of the summit - which will further the diplomatic legacy of the Obama administration.

However, the high-profile visit is somewhat marred by a degree of pessimism that has set in of late in the U.S.-China ties. The rift between the two sides has been visibly widening over a plethora of issues including the South China Sea dispute, cyber security issues, and currency manipulations – so much so that many argue that a "tipping point"<sup>1</sup> is looming large upon the two biggest economies of the world.

Making matters worse, on one hand, there are apprehensions about the U.S. Federal Reserve's impending rate hike triggering capital outflows from the Chinese markets. On the other hand, Chinese stock market has been tumbling, Yuan is being devalued, and growth rate in China is reaching a record low. All these issues have further dampened the sentiment in both countries and cataclysmic projections about the future of both economies have taken over the public discourse on either side.

In this context, questions arise regarding how exactly did the 'APEC 2014' or the 'Sunnyland 2' spirit of U.S.-China friendship and goodwill gave way to such unprecedented level of tension and apprehension between the two countries. Delving

deeper into these issues, this part of the Issue Brief tracks the major developments in U.S.-China relations since November 2014 to present, that form the backdrop of the Xi-Obama meeting.

## **The Backdrop**

U.S.- China relationship entered a phase of new 'low' with the beginning of this year, when the U.S. media outlets published satellite pictures showing China's land reclamation activities in the South China Sea<sup>2</sup>. The U.S. leadership publicly opposed further militarization of disputed features in the South China Sea and demanded a "lasting halt"<sup>3</sup> to land reclamation work by all claimants, especially China, which, they felt, "has gone much farther and faster than others by reclaiming over 2000 acres"<sup>4</sup>. However, China refused to break under Washington's pressure and stated that the reclamation was in line with China's sovereign integrity and that the constructions are mainly for civilian and humanitarian purposes<sup>5</sup>. This hardening of stance on both sides led to a serious war of words and provocative actions from either side.

In a dramatic turn of events in the South China Sea politics, the U.S. military asserted the freedom of navigation and overflight by sending its reconnaissance planes<sup>6</sup> to fly over islands and reefs reclaimed by China. U.S. Defence Secretary Ashton Carter famously said, "There should be no mistake, the United States will fly, sail, and operate wherever international law allows and will continue to be the principal security provider in the Asia-Pacific for decades to come"<sup>7</sup>. When the Chinese side charged the U.S. of "relinquishing its neutrality in South China Sea politics"<sup>8</sup>, the U. S. Assistant Secretary of State, Daniel Russel, clarified that "the United States is not neutral when it comes to following international law in the South China Sea and will come down forcefully to ensure that all parties adhere to the rules"<sup>9</sup>. In their effort to not set "a wrong precedent", the Chinese side retaliated saying that China's determination to protect its interests in South China Sea is "as firm as a rock"<sup>10</sup> and if Washington doesn't drop its demands over the South China Sea, "US-China military confrontation will start sooner or later."<sup>11</sup>.

In a symbolic gesture, China released its 2014 defence white paper, its first ever military strategy, where it emphasised on safeguarding China's maritime rights and interests and the need for PLA Navy to be prepared for future maritime military

struggle<sup>12</sup>. The United States reacted by updating its national military strategy, first time since 2011, where it explicitly mentioned that “the probability of U.S. involvement in interstate war with a major power is assessed to be low but growing”. It also expressed its concern over China’s actions in South China Sea which it stated as “inconsistent with international law and are adding tension to the Asia-Pacific region”<sup>13</sup>.

The U.S. reached out to its key partners in the Asia Pacific Region to express solidarity and also to initiate “the next phase of its rebalance strategy”. The U.S. Defence Secretary made two significant visits to the Asia Pacific this year. His first trip was to Japan and South Korea and his second trip was to Hawaii, Singapore, Vietnam and India. In Japan, he declared U.S. disapproval of “any unilateral coercive action from any country seeking to undermine Japan's administrative control of Senkaku Island or causing change in the status quo of the South China Sea”<sup>14</sup>. The US also announced its resolve to stand by the Philippines in its territorial dispute with China. Sending yet another strong message to Beijing, the newly appointed US Commander of the Pacific Fleet, Scott Swift even conducted a surveillance mission on board a P-8A Poseidon plane during his visit to Manila.<sup>15</sup> With Vietnam, the U.S. has not only partially lifted the ban on arms sales but is exploring ways of deepening defence cooperation with Hanoi, especially in the maritime domain<sup>16</sup>. Besides the traditional adversaries of China, the U.S. reached out to other players in the region including Singapore<sup>17</sup>, South Korea<sup>18</sup>, Australia<sup>19</sup>, Malaysia<sup>20</sup> and India<sup>21</sup> either to reaffirm the strength of its alliance or to explore new areas of security cooperation in the Asia Pacific.

If combined military exercises are any symbol of evolving geostrategic equations, the U.S. Navy carried out the two major military exercises this year, which elicited strong reactions from the Chinese side – one is the ‘Talisman Sabre’ exercise<sup>22</sup> with Australia, Japan and New Zealand<sup>23</sup>. The exercise courted much controversy, since unlike previous years when the focus of the exercise was on humanitarian aid, disaster relief, and counterterrorism operations, this year it focused on the planning and conduct of “mid-intensity high end warfighting”<sup>24</sup>. The second one is Operation Balikatan - a military exercise conducted by the U.S. and the Philippines in the South China Sea. This year the size of the exercise was twice that of other years’.<sup>25</sup> Other than these, there had been much speculations about Washington’s unwillingness to

continue including China in RIMPAC 2016<sup>26</sup>, or about expanding the bilateral naval exercise between the U.S. and India, ie. Malabar, to incorporate Japan as well. <sup>27</sup>

As the U.S. strove hard, for most part of the year, to ramp up military cooperation with its allies in the Indo-Pacific region, China, meanwhile, has been clearly cosyng up with Russia on issues ranging from economics to history and to even military affairs, much to the U.S.'s discomfort. This year China and Russia not only showed solidarity with each other on commemorating the 70<sup>th</sup> anniversary of the end of World War II<sup>28</sup> but also conducted two major combined naval exercises - one in the waters of the Peter the Great Gulf, off the Clerk Cape and the Sea of Japan and the other in the Mediterranean.<sup>29</sup>

Not only in terms of strategic/military matters, the bout of allegations and counter allegations between the U.S. and China continued on other fronts as well, including cyber-attacks, human rights, religious freedom and economic espionage. The U.S. Department of Homeland Security noted that massive data of around 4 million U.S. federal employees from the Office of Personnel Management and the Interior Department had been compromised in hacking attacks from China<sup>30</sup>. Several charges also got filed against Chinese personnel including professors in the U.S. for theft of trade secrets. China on the other hand countered these allegations, projecting itself to be at the frontline of cyber-attacks and espionages<sup>31</sup>. The rift between China and the U.S. over the issue has become so serious that President Obama even hinted at imposing sanctions against China on the issue cyber security<sup>32</sup>.

## **Chinese Perspectives**

According to the Chinese scholars, it is the "pre-emptive posture" of the U.S., aimed at maintaining its global superiority, that is souring the Sino-U.S. relations. However, most western scholars believe that the Chinese "proactive policies" in both South China Sea and in the field of economics is the real reasons behind the recent downward trend in the relationship.

Chinese scholars hold the view that the U.S. military and diplomatic circles have not yet reached a consensus on how to deal with China's ascendance and will react only after assessing China's capacity to retaliate. They say, "the U.S. is merely flying a

kite”<sup>33</sup>; in other words, testing China's determination and strategy to counter U.S. provocation.

The argument of “offshore balancing”<sup>34</sup> is also gaining currency within Chinese scholarly circle. According to this theory, the U.S. remains at the sidelines but prompts Beijing’s neighbours to assume the risks and costs of countering a rising China. The Chinese scholars argue that the U.S. is really only “putting on a posture” of involvement in the South China Sea so as to gain the trust of its allies. However, it neither has the intention nor the capability to take any substantial military action against China. And, therefore it is only making efforts to slow down China’s rise by creating problems or harassing China<sup>35</sup>.

The third reason they indicate is linked to the election ‘season’ in the U.S.. China-related issues have apparently become an intrinsic part of the U.S. domestic politics, wherein politicians publicize various threats posed by China's rise – “How the Chinese have snatched American jobs, how Chinese companies have stolen U.S. technologies, and how China's rise has challenged U.S. dominance”<sup>36</sup> – only to win votes. According to the Chinese scholars, “China bashing” in the U.S. gets particularly loud during the election times. Be it the Republicans or Democrats, most presidential candidates try to score brownie points among electorates by assuming tougher stance against China. However, after being elected, the new presidents only readjust their China policy to a more pragmatic one.

## **The U.S. Perspective**

The American side, however, have a completely different take on the deteriorating bilateral relationship. They say that it’s ‘China’s Muscle flexing’ or its proactive military stance against its neighbours and U.S. allies that is strengthening the U.S. foothold in the Asia Pacific. In words of Defence Secretary Ashton Carter, “China’s actions are bringing countries in the region together in new ways. And they’re increasingly demanding for American engagement in the Asia-Pacific, and we’re going to meet it. We will remain the principal security power in the Asia-Pacific for decades to come.”<sup>37</sup>

On the other hand, the success of China’s proactive economic policy is increasingly making Washington anxious about its own future and about the possibility of losing

its privilege of writing the rules for global governance to a more economically resilient China<sup>38</sup>. A case in point is the Asian Infrastructure Investment Bank (AIIB) episode, early this year. The initiative has long been interpreted as a symbol of China-U.S. competition, and a test case for either side's global influence. The U.S., which pitted AIIB against other U.S. led financial institutions including the World Bank and the Asian Development Bank, actively encouraged its allies to not participate in the initiative. However, in what was later termed as a "diplomatic debacle" for the U.S., 16 of the world's 20 largest economies took part in the Chinese led initiative<sup>39</sup>. To great embarrassment of Washington, some of the closest allies of the U.S. like the U.K., South Korea, Australia too joined the initiative at the face of Washington's harsh criticism. The AIIB incident has been largely interpreted by many U.S. scholars as the U.S. losing face against China "spectacularly and humiliatingly"<sup>40</sup>.

The AIIB is just one of regional mega projects that China has proposed in recent years. Beijing's Silk Road projects has made significant progress this year, transforming from a theoretical concept to an actual executional plan. The New Development Bank for BRICS economies is also coming into action. China has already proposed another new regional trade agreement, the FTAAP (Free Trade Area of Asia Pacific) during the APEC Summit last November. It has already held several rounds of discussions with countries like Australia, India, Japan, New Zealand and South Korea on RCEP and aims to complete the negotiations this year.

In comparison Trans Pacific Partnership (TPP) deal initiated by the U.S. – often stanced as the economic arm of the Obama administration's Pivot to Asia policy continue to be a laggard. Even after two years of claims that its conclusion is near, the deal still remains elusive.<sup>41</sup> Although there has been much debate on whether the two trade blocs in Asia – the one led by China and the other by the U.S. can be made compatible with each other and chances have been explored whether China can seek membership of TPP and the U.S. becomes a member of AIIB in due course in time. However, such rosy projections are doing little to address the growing apprehensions in the U.S. about what President Obama once famously said "without the TPP (read the U.S.), China will write the rules for trade and investment in Asia".<sup>42</sup>

In this background of rising competition between the U.S. and China over access to and influence in the Asia Pacific Region, and the growing insecurity over who writes the rules of global governance, that the debate over the relevance of classic Thucydides Trap<sup>43</sup> is once again gaining traction among western scholars.

## **Conclusion**

It is important to recall, that provocative gestures like the U.S. sending reconnaissance flights over South/East China Sea or having serious disagreements with China over trade issues are not entirely new developments – although the intensity may vary from time to time. For instance, in November 2013, the U.S. defied China's Air Defence Identification Zone (ADIZ) by flying B-52 bombers over disputed islands in East China Sea. In the area of trade and economics as well, the U.S. publicly lobbied against China's FTAAP proposal and launched an economic offensive against China on the Chinese soil, by promoting the TPP (the trade block that excludes China) and meeting its potential members, at the side lines of the APEC summit. However, none of these provocative posturing could derail the Xi-Obama meet of November 2014, when both the leaders managed to strike the revolutionary climate deal and other such agreements which rather strengthened the 'new type of major power' relations. Given this trend, it is not impossible that this time too, the leaders will manage to pull off a great show, in spite of all the initial discord and challenges.

The second part of this Issue Brief will examine the issues discussed during the meeting, analyse any joint statement that may be released and thereby evaluate its implication for India.

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<sup>1</sup> Dr. David M. Lampton's speech "A Tipping Point in U.S.-China Relations is Upon Us" as given at the conference "China's Reform: Opportunities and Challenges." This event was co-hosted by The Carter Center and the Shanghai Academy of Social Sciences over May 6-7, 2015. <http://www.uscnpm.org/blog/2015/05/11/a-tipping-point-in-u-s-china-relations-is-upon-us-part-i/>

<sup>2</sup> Jeremy Page, 'Construction in Disputed South China Sea', *The Wall Street Journal*, February 18, 2015, <http://www.wsj.com/articles/china-expands-island-construction-in-disputed-south-china-sea-1424290852>, accessed 21 September 2015

<sup>3</sup> 'Readout of Secretary of Defense Ash Carter's Meeting With People's Republic of China Vice Chairman of the Central Military Commission', June 11, 2015, <http://www.defense.gov/News/News-Releases/Article/605560> accessed 22 September 2015

<sup>4</sup> IISS Shangri-La Dialogue 2015 First Plenary Session Dr Ashton Carter, Secretary of Defense, United States <https://www.iiss.org/en/events/shangri%20la%20dialogue/archive/shangri-la-dialogue-2015-862b/plenary1-976e/carter-7fa0>, accessed 21 September 2015

<sup>5</sup> 'China must insist on island-building', *Global Times*, May 31, 2015, <http://www.globaltimes.cn/content/924630.shtml>, accessed 21 September 2015

<sup>6</sup> The U.S. sent P8-A Poseidon surveillance aircraft, which is also the US military's most advanced surveillance aircraft, to fly over China's islands and reefs in the South China Sea

<sup>7</sup> Secretary of Defense Speech, U.S. Pacific Command Change of Command, May 27, 2015, <http://www.defense.gov/News/Speeches/Speech-View/Article/606675/us-pacific-command-change-of-command>, accessed 20 September, 2015

<sup>8</sup> US admits only paying lip service to neutrality in South China Sea issues, July 24, 2015, [http://usa.chinadaily.com.cn/epaper/2015-07/24/content\\_21397947.htm](http://usa.chinadaily.com.cn/epaper/2015-07/24/content_21397947.htm), accessed 20 September, 2015

<sup>9</sup> Daniel Russel's S.China Sea remarks absurd, *Global Times*, July 23, 2015, <http://www.globaltimes.cn/content/933457.shtml>, accessed 20 September, 2015, Prashanth Parameswaran, US Not 'Neutral' in South China Sea Disputes: Top US Diplomat, *The Diplomat*, July 22, 2015, <http://thediplomat.com/2015/07/us-not-neutral-in-south-china-sea-disputes-top-us-diplomat/>, accessed 20 September, 2015

<sup>10</sup> China's will to safeguard sovereignty "unshakable": foreign minister, *Global Times*, May 17, 2015, <http://www.globaltimes.cn/content/921982.shtml>, accessed 20 September, 2015

<sup>11</sup> 'Onus on US to cool South China Sea heat', *Global Times*, May 24 2015, <http://www.globaltimes.cn/content/923355.shtml>, accessed 22 September, 2015

<sup>12</sup> Strategic Guideline of Active Defense, China's Military Strategy, The State Council Information Office of the People's Republic of China, May 2015, Beijing [http://eng.mod.gov.cn/Database/WhitePapers/2015-05/26/content\\_4586711.htm](http://eng.mod.gov.cn/Database/WhitePapers/2015-05/26/content_4586711.htm), accessed 22 September, 2015

<sup>13</sup> The National Military Strategy of the United States of America, the United States Military's Contribution to National Security, June, 2015, from [http://www.jcs.mil/Portals/36/Documents/Publications/2015\\_National\\_Military\\_Strategy.pdf](http://www.jcs.mil/Portals/36/Documents/Publications/2015_National_Military_Strategy.pdf), accessed 20 September, 2015

<sup>14</sup> U.S.-Japan defence guidelines to specify islands' defence - paper, April 14, 2015, from <http://af.reuters.com/article/worldNews/idAFKBN0N50CB20150414>, accessed 20 September, 2015

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<sup>15</sup> ‘Swift’s South China Sea flight can only fool Manila’, *People’s Daily*, July 21, 2015, from <http://en.people.cn/n/2015/0721/c90000-8923245.html>, accessed 20 September, 2015

<sup>16</sup> Cheri Pellerin, ‘Carter: U.S., Vietnam Committed to Defense Relationship’, DoD News, Defense Media Activity, June 2, 2015, <http://www.defense.gov/News-Article-View/Article/604763>, accessed September 21, 2015

<sup>17</sup> ‘Readout of Secretary of Defense Ash Carter's Meeting With Singapore Prime Minister Lee Hsien Loong and Minister of Defense Ng Eng Hen’, May 30, 2015, <http://archive.defense.gov/releases/release.aspx?releaseid=17306>, accessed September 21, 2015

<sup>18</sup> ‘Carter, South Korea President Reaffirm Alliance’, *DoD News, Defence Media Activity*, from April 10, 2015, <http://www.defense.gov/News-Article-View/Article/604434>, accessed September 21, 2015

<sup>19</sup> Readout of Secretary of Defense Ash Carter's Meeting With Australian Minister of Defense Kevin Andrews May 30, 2015, <http://www.defense.gov/News/News-Releases/Article/605536> accessed September 21, 2015

<sup>20</sup> Josh Rogin, Malaysia and U.S. in Talks to Ramp Up China Spying, *Bloomberg View*, September 3, 2015, <http://www.bloombergvew.com/articles/2015-09-03/malaysia-and-u-s-in-talks-to-ramp-up-china-spying>, accessed September 20, 2015

<sup>21</sup> Carter, Indian Prime Minister Discuss Issues in New Delhi, DoD News, Defense Media Activity, June 4, 2015, <http://www.defense.gov/News-Article-View/Article/604780>, accessed September 20, 2015

<sup>22</sup> Around 33,000 troops, 200 aircraft as well as 21 ships participated in the exercise

<sup>23</sup> David Larter, U.S., Australia wrap up Talisman Sabre exercise, *NavyTimes*, July 23, 2015, <http://www.navytimes.com/story/military/2015/07/20/talisman-saber-navy-australia-2015-exercise/30411567/>

<sup>24</sup> Japan, New Zealand debut in largest US-Australia military exercise Ridzwan Rahmat and James Hardy, July 06, 2015, <http://www.janes.com/article/52801/japan-new-zealand-debut-in-largest-us-australia-military-exercise>, accessed September 20, 2015

<sup>25</sup> Manuel Mogato, U.S. rebalance to Asia begins with major military drill in Philippines, Reuters, April 20, 2015, <http://www.reuters.com/article/2015/04/20/us-southchinasea-philippines-usa-idUSKBN0NB0DJ20150420>, accessed September 22, 2015

<sup>26</sup> Josh Rogin, ‘Calls to Punish China Grow’, *Bloomberg View*, May 3, 2015 <http://www.bloombergvew.com/articles/2015-05-05/second-thoughts-on-inviting-china-to-rim-pac-naval-exercises>, accessed September 20, 2015

<sup>27</sup> The 2007 Malabar exercise in the Bay of Bengal was expanded to include the Japanese, Australian and Singaporean navies. However, China launched a strong protest against the same following which Malabar was made a bilateral exercise. India to include Japan in its Malabar naval exercise with the US, *The Times of India*, Jul 11, 2015, <http://timesofindia.indiatimes.com/india/India-to-include-Japan-in-its-Malabar-naval-exercise-with-the-US/articleshow/48027221.cms> , accessed September 20, 2015

<sup>28</sup> China, Russia vow to promote military ties, *Global Times*, May 11, 2015, <http://www.globaltimes.cn/content/921071.shtml>, accessed September 20, 2015

<sup>29</sup> ‘Three firsts in China-Russia joint maritime exercise’, *China Military Online*, August 20, 2015, from [http://eng.chinamil.com.cn/special-reports/2015-08/20/content\\_6643752.htm](http://eng.chinamil.com.cn/special-reports/2015-08/20/content_6643752.htm), accessed September 20, 2015

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<sup>30</sup> Andrea Shalal and Matt Spetalnick, Data hacked from U.S. government dates back to 1985 - U.S. official, Reuters, June 6, 2015, <http://in.reuters.com/article/2015/06/06/cybersecurity-usa-idINKBNoOK2IQ20150606>, accessed September 20, 2015

<sup>31</sup> In one case a report released by a Chinese cyber security company alleged a foreign government-backed hacker group named "Ocean Lotus" of having engaged in cyber-attacks against Chinese institutions since 2012

<sup>32</sup> Julie Hirschfeld Davis, Obama Hints at Sanctions Against China Over Cyberattacks, *The New York Times*, September 16, 2015, <http://www.nytimes.com/2015/09/17/us/politics/obama-hints-at-sanctions-against-china-over-cyberattacks.html>, accessed September 20, 2015

<sup>33</sup> 'US takes dangerous gamble in S.China Sea', Global Times, May 29, 2015, <http://www.globaltimes.cn/content/924241.shtml>, accessed September 22, 2015

<sup>34</sup> C. Raja Mohan, *Samudra manthan, Sino-Indian Rivalry in the Indo-Pacific*, pp 242

<sup>35</sup> Swift's South China Sea flight can only fool Manila, Global Times, May 29, 2015, <http://www.globaltimes.cn/content/924241.shtml>, accessed September 22, 2015

<sup>36</sup> Liu Zhun, 'Fiorina's election-based China bashing unimaginative', Global times, May 29, 2015 from <http://www.globaltimes.cn/content/924239.shtml>, accessed September 20, 2015

<sup>37</sup> Secretary of Defense Speech, U.S. Pacific Command Change of Command, May 27, 2015, from <http://www.defense.gov/News/Speeches/Speech-View/Article/606675/us-pacific-command-change-of-command>, accessed September 20, 2015

<sup>38</sup>

<sup>39</sup> Shannon Tiezzi, 'China's AIIB: The Final Tally', *The Diplomat*, April 17, 2015, from <http://thediplomat.com/2015/04/chinas-aiib-the-final-tally/>, accessed September 20, 2015

<sup>40</sup> Jean-Pierre Lehmann, China And The US: The AIIB Fiasco & America's Colossal Loss Of Face, *Forbes*, April 2, 2015, <http://www.forbes.com/sites/jplehmann/2015/04/02/china-and-the-us-the-aiib-fiasco-americas-colossal-loss-of-face/>, accessed September 20, 2015

<sup>41</sup> Eric Bradner, 'Negotiations stall on biggest free trade deal ever, the Trans-Pacific Partnership', *CNN*, August 1, 2015 <http://edition.cnn.com/2015/08/01/politics/tpp-negotiations-snagged-trade-deal/>, accessed September 20, 2015

<sup>42</sup> Joshua P. Meltzer, 'From the Trans-Pacific Partnership to a free trade agreement of the Asia-Pacific?', *Brookings*, May 5, 2015, <http://www.brookings.edu/blogs/future-development/posts/2015/05/05-tpp-trade-meltzer>, accessed September 20, 2015

<sup>43</sup> Graham Allison of Harvard University has labeled "the Thucydides Trap" – that deadly combination of calculation and emotion that, over the years, can turn healthy rivalry into antagonism or worse.