



REUTERS/ALY SONG/FILES

SLOUCHING EAGLE SWAGGERING DRAGON

U.S.-China summit: a search for balance between superpowers



GLOBAL LEADER: China's President Hu Jintao adjusts his glasses at the APEC CEO Summit in Yokohama, south of Tokyo November 13, 2010. **REUTERS/VIVEK PRAKASH**

WHAT HAPPENS WHEN the world's rising superpower comes to Washington? China looks for all the pomp and ceremony that would seal President Hu Jintao's status as a global leader, head of the world's second largest economy and an emerging military presence in Asia. For the United States, the goals are far more practical. Delivering jobs for Americans, removing obstacles to U.S. business in China and help in containing the nuclear ambitions of North Korea and Iran are high on President Barack Obama's agenda.

Their meeting on Jan. 19, billed as the most significant in 30 years, will be garlanded in smiles and vows of friendship. But that will belie deep tensions between the allies.

Reuters reporters from Washington and Beijing look at the issues and what each side can hope to achieve. ■



REUTERS

OBAMA, HU WILL SEEK TO RE-SET TIES IN STATE VISIT

BY PAUL ECKERT AND CAREN BOHAN
WASHINGTON, JAN 9

PRESIDENT BARACK OBAMA and China's Hu Jintao will strive to put a rocky 2010 behind them and cast themselves as partners rather than rivals at a state visit this month between the world's two biggest powers.

But a trust deficit as big as the trade gap between Beijing and Washington may hover over the visit, even as Obama fetes Hu with a black-tie dinner and a 21-gun salute and holds talks with him on issues like North Korea and the global economy.

With the world still struggling with economic woes and wrestling with grave environmental and security threats, the significance of the Chinese president's visit cannot be overstated. The Jan. 19 event is being billed as the most important state visit in 30 years.

"The goal of these meetings isn't tied to some watershed moment but towards the long-term process of deepening the relationship," said David Rothkopf, a foreign policy expert and former Clinton administration official. "Necessarily, the meeting between the heads of the two most important countries is as significant a summit as can happen."

Obama has said he believes the U.S.-China relationship will shape the 21st century. One long-term challenge is navigating the transition to a relationship of equals, and some experts are skeptical this can be done smoothly.

One immediate aim will be to set a better tone after Washington and Beijing locked horns last year over deadly North Korean attacks on South Korea, exchange-rate policy, Internet censorship, human rights, South China Sea navigation, climate change and valuable rare earth minerals.

Far-reaching breakthroughs are unlikely.

DRIFT DOWNWARD

"WE HAD A DRIFT downward in the relationship since President Obama visited Beijing in 2009," said the Brookings Institution's Kenneth Lieberthal. "Both sides see this as really setting the parameters for how to think about the relationship in both



YUAN TOO LOW: A 100 yuan banknote (R) is placed next to a \$100 banknote in this picture illustration taken in Beijing November 7, 2010. REUTERS/PETAR KUJUNDZIC

governments from now for the next several years."

Obama's decision to accord Hu the pomp and circumstance of a full state visit could be a step in that direction. China views formalities like the state dinner and cannon salute as acknowledgments of its growing stature.

But there are risks. U.S. officials are taking pains to avoid the glitches of Hu's 2006 visit to Washington when a shouting protester from the Falun Gong spiritual movement interrupted the Chinese president's remarks on the South Lawn.

Under Obama's tenure in 2009, the Group of 20, which includes fast-growing economies like China and India, replaced the Group of 8 as the global economic steering committee.

Twenty years after the end of the Cold War and almost a decade since Sept. 11, the United States must "make adjustments for the G20 world and this is a very important visit in terms of setting the ground rules for that," said Douglas Paal of the Carnegie Endowment for International Peace.

"Deliverables best are seen in the perspective of two or three years from now -- what really got settled," he said.

But Paal said the looming fact of the

summit was an "action-forcing event" that has brought gains on some fronts.

It seems to have paved the way for the 3 percent rise in the value of China's yuan currency as well as a resumption of long-frozen U.S.-China military ties and a pause in bellicose actions and words from North Korea.

In the clearest sign that military-to-military ties are back on track, U.S. Defense Secretary Robert Gates traveled to Beijing on Sunday.

Gates got a taste during his visit of China's ambitious military modernization program, when the secretive Chinese air force held its first test flight of its J-20 stealth fighter jet -- a move whose timing puzzled military analysts.

One big question ahead of Hu's visit is whether stalled six-party talks over North

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Korea's nuclear program could restart but U.S. officials emphasized they do not view that as a measure of the success or failure of the U.S.-China summit.

NO BIG GIFT BASKET

ON TRADE, where the U.S. chafes at an ever-widening annual trade deficit approaching \$270 billion, China made proposals last month on purchases of U.S. beef and intellectual property rights.

Still, Washington would be wrong to expect a "big gift basket" from China on exchange rates, North Korea or Iran, said Sun Zhe, an expert at Beijing's Tsinghua University. "China hopes that such visits can help achieve overall stability in relations, not necessarily specific outcomes," Sun said.

As China racks up world-beating economic growth, the United States is fretting about lackluster growth and weak job creation after the 2008-2009 financial meltdown.

That means that economic frictions are unavoidable.

Indeed, two weeks before the summit, Sen. Charles Schumer, a top proponent in Obama's Democratic Party of pressing China to revalue its yuan, vowed in an interview with Reuters to revive legislation that would punish Chinese exports if the yuan did not rise. Beijing loathes the bill.

CHINA-U.S. DISPUTES



CURRENCY & DEBT

- ▶ U.S. complains that China keeps its yuan artificially undervalued, unfairly helping exporters
- ▶ Beijing is the biggest foreign holder of U.S. Treasuries, with around \$900 bln. Some in Washington fear that China could dump the bonds in a political dispute
- ▶ China let its currency appreciate 3.6 percent in 2010, but some U.S. critics say it should be allowed to rise at least 20 percent



TRADE

- ▶ U.S. complains about intellectual property theft, murky regulations, corruption and unfair advantages enjoyed by domestic rivals
- ▶ Chinese want American markets to remain open to Chinese goods
- ▶ Ballooning U.S. trade deficit with China is expected to hit \$270 billion this year
- ▶ Investments on the U.S. side blocked on national security grounds
- ▶ China wants access to U.S. high technology



DIPLOMATIC & MILITARY INFLUENCE

- ▶ U.S. is expected to ask China for more help persuading Pyongyang to abandon nuclear weapons. Also wants Beijing's help in pushing Tehran on its nuclear program
- ▶ U.S. likely to seek reassurances from China about its long-term military ambitions.
- ▶ U.S. allies in Asia also worry about Chinese aggression and territorial feuds



INTERNET

- ▶ U.S. criticises China's censorship and blocking of many foreign websites
- ▶ U.S. reports majority of cyber attacks on U.S. government websites originated from China



HUMAN RIGHTS

- ▶ U.S. is critical of China's handling of civil liberties, religious freedom and Tibet



CEREMONY

- ▶ China wants a smooth summit, with all the trappings of a formal state visits and no embarrassing incidents

REUTERS

Beyond specific bilateral issues, one obstacle to deepening ties is wariness on both sides about each other's intentions.

Chinese nationalism is rising as rapidly as Beijing's global clout, but Paal said Hu would try to convey to the United States that Beijing is "comfortable with America's lead in the world" and is not trying to displace it.

Obama has work to do in allaying China's worries, too.

"They have a very hard time believing that number one will not try to keep number two from catching up, because they know that's what they would do if they were number one," Lieberthal said. ■

(Additional reporting by Thomas Ferraro and David Alexander in Washington, Chris Buckley in Beijing; editing by Philip Barbara)

FIVE ITEMS ON HU AND OBAMA'S WISH LIST

OBAMA:

CURRENCY AND TRADE: Obama will push Hu to let China's yuan currency appreciate. Washington says Beijing keeps the currency too low, giving it an unfair advantage in international trade, and Obama has repeatedly warned China against relying too much on selling its products abroad for growth.

NUCLEAR DIPLOMACY: Obama is expected to ask Hu for more help persuading Pyongyang to abandon nuclear weapons and avoid potentially destabilizing actions like the North's bombarding of a South Korean island and sinking of a navy ship last year. He also wants Beijing's continued help in pushing Tehran on its nuclear program.



Washington wants tougher sanctions on Iran to convince the Islamic republic's leaders to curb their nuclear ambitions.

SHOWING STRENGTH: The U.S. president wants to boost perceptions that he is a strong leader after

his Democrats lost heavily to Republicans in the November congressional elections and after he was criticized for seeming too weak during his November 2009 visit to China.

MILITARY: He is likely to seek reassurances from Hu about China's long-term military ambitions -- some U.S. officials are concerned about Chinese spending on its military as its economy booms -- and what



they see as Chinese aggression in the region and secrecy about its plans.

CEREMONY: The White House wants a visit with no embarrassing glitches, and highlighted by a glittering state dinner and other ceremonies.

Security will also be extra-tight, to avoid anything like the 2006 protest or the party-crashers who made their way into Obama's state dinner for India's leader in 2009.

HU:

CURRENCY AND TRADE: The Chinese president wants assurances for his workers and export industries that American markets will remain open to Chinese goods.

NUCLEAR DIPLOMACY: Hu, who makes stability on the Korean peninsula a priority, is likely to push Obama to return to negotiations with North Korea and soften the U.S. stance that it will not talk again without North Korean concessions.

LEGACY: For Hu, the trip is largely about his legacy -- Vice President Xi Jinping is set to succeed him as China's president after late 2012. While sending a message of U.S.-Chinese cooperation, he wants to show a

domestic audience that he is able to stand up to Washington and not make too many concessions.

MILITARY: China wants to alleviate perceptions it believes are growing in the United States and elsewhere in Asia that China is a threat. It also may want reassurances on the perennial sticking points of U.S. arms sales to Taiwan, which Beijing considers a renegade province, and U.S. military operations near China's shores.

CEREMONY: China wants a smooth summit, with all the trappings of a formal state visit and no embarrassing incidents. Hu's last visit to Washington, in 2006, was marred by glitches, most notably an incident in which a shouting protester from the Falun Gong spiritual movement interrupted Hu's opening remarks on the White House lawn. ■

(Reporting by Patricia Zengerle, editing by Philip Barbara)

OBAMA URGED TO STEP UP YUAN PRESSURE IN HU SUMMIT

BY ALISTER BULL
AND SIMON RABINOVITCH
WASHINGTON/BEIJING, JAN 10

WHEN PRESIDENT BARACK OBAMA meets China's Hu Jintao, he might remind his guest of an old U.S. proverb: owe \$10,000 and you have a problem; owe \$10 million and the lender has a problem.

The United States owes China at least \$907 billion and needs to have a careful conversation with its largest creditor when the Chinese president visits the White House on Jan. 19.

Obama wants Beijing to let its yuan currency rise, helping him to cut U.S. unemployment by lifting exports to China.

China, whose economy is pulling strongly while the United States struggles, has pushed back by criticizing Obama for aggressive U.S. fiscal and monetary policy action it says could hurt its investment by undermining the U.S. currency.

Obama last month crafted a government stimulus plan based on \$858 billion in tax cuts, and the U.S. central bank is pumping a further \$600 billion into the economy.

But China is also caught in a dollar trap due to the size of its holdings, limiting options to diversify by dumping U.S. bonds because this could slam the value of the portfolio.

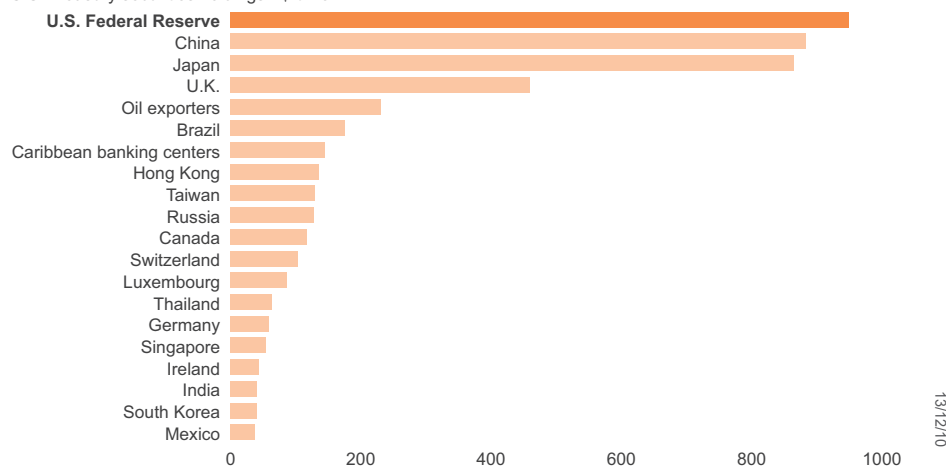
The U.S. president has made plain he will not apologize for temporary pro-growth measures that have riled Beijing.

Analysts say Obama must not retreat from this position when the two leaders meet, urging he go on the offensive over the yuan,

Biggest holders of U.S. Treasury securities

The U.S. Federal Reserve—and ultimately American taxpayers—has surpassed China to become the single largest holder of U.S. debt, currently at \$949.6 billion.

U.S. Treasury securities holdings - \$ billion



Note: Federal Reserve data as of Dec.9; country/group data as of September

Source: U.S. Treasury Department's Treasury International Capital System, Federal Reserve's balance sheet

13/12/10
REUTERS

Reuters graphic/Van Tsui

VIDEO

REUTERS INSIDER: the view from inside China and U.S. lack of leverage:

<http://link.reuters.com/kyn36r>

which U.S. officials say China keeps artificially cheap against the dollar to promote exports.

"You have got to ratchet up the pressure," said Fred Bergsten, director of the Peterson Institute for International Economics, a Washington think-tank.

"My sense is that this is where the administration is headed too, largely out of frustration that the effort to persuade and use sweet reason has paid very little dividends," said Bergsten, who argues China is a blatant cheat on trade.

On Wednesday, U.S. Treasury Secretary Timothy Geithner made clear that the United States was unsatisfied with the pace of progress by Beijing in allowing more currency flexibility.

Obama is likely to press that message in the talks with Hu.



HIGH UNEMPLOYMENT: A 'Save U.S. Jobs' bumper sticker is seen on the back of a vehicle in Lansing, Michigan July 22, 2009. **REUTERS/REBECCA COOK**

BEIJING BEARS

CHINA HAS A different take on the problem and sees a threat from a \$1.3 trillion U.S. budget deficit and ultra-loose monetary policy being pursued by the Federal Reserve.

Beijing says the U.S. central bank's November decision to buy an additional \$600 billion-worth of U.S. Treasury bonds will inevitably weaken the dollar, hitting China's U.S. Treasury holdings and potentially destabilizing its economy.

"The U.S. fiscal deficit and debt are both increasing, and it will be very difficult for the U.S. government to control its finances at a sustainable level where neither inflation nor dollar depreciation occur," said Zhang Ming at the Chinese Academy of Social Sciences, a top government think-tank.

"If the Fed is too loose, I'm afraid the probabilities of both of these will increase and will hurt Chinese financial stability," he said.

He said Beijing would try to move away from the dollar over the medium term, but substantial core holdings of U.S. assets were the "only feasible option."

There was evidence last year that China stepped up the pace of foreign exchange diversification, buying record amounts of Japanese and South Korean debt and also picking up Spanish and Brazilian bonds, among others.

But this happened only at the margins; China simply has few options outside of the U.S. market. Its holdings of U.S. debt actually grew from \$894.8 billion at the start of 2010 to \$906.8 billion as of October, the most recent data shows.

The Peterson Institute's Bergsten says official data underestimates China's dollar



Presidents Barack Obama and Hu Jintao.

holdings, which could be as high as \$1.5 trillion if bonds held anonymously by third parties in the international capital markets could be accurately counted.

"By cranking up its dollar printing press, the United States also puts our country in a very awkward position," noted a Jan. 5 commentary in Huanqiu Renwu, a magazine published by the People's Daily, the Communist Party's main newspaper.

"Some of the hot money will flow into our country, disrupting our financial order and aggravating our inflation," it said.

CURRENCY CRAWL

CHINA SAID IN June it would move its yuan toward more flexibility but since then has allowed little appreciation against the dollar. But the currency has only risen around 3.5 percent since it was depegged in June.

Patience in Washington is wearing thin.

U.S. lawmakers are pushing legislation to punish Chinese imports for exchange rate intervention, while the U.S. Treasury has the option of slapping China as a currency manipulator.

"If I were advising the president I'd tell him to go after China and ask why it was being so uncooperative on the world stage," said Philip Levy, a scholar at the American Enterprise Institute in Washington.

"You are worried about inflation. You've got all these issues. Let's work together on this stuff," said Levy, who prescribed yuan revaluation as a "textbook" remedy.

China, moving in the opposite policy direction to the United States thanks to its buoyant economy, has recently tightened monetary policy to counter inflation fears.

U.S. officials, including Fed Chairman Ben Bernanke in remarks on Friday, say allowing the Chinese exchange rate to rise would help cool an overheating economy.

They want China to boost domestic demand to encourage a shift in resources away from its export sector.

Washington says this will help it invest more money domestically that is now being spent on buying U.S. Treasury bonds to hold down the value of the yuan and aid exports.

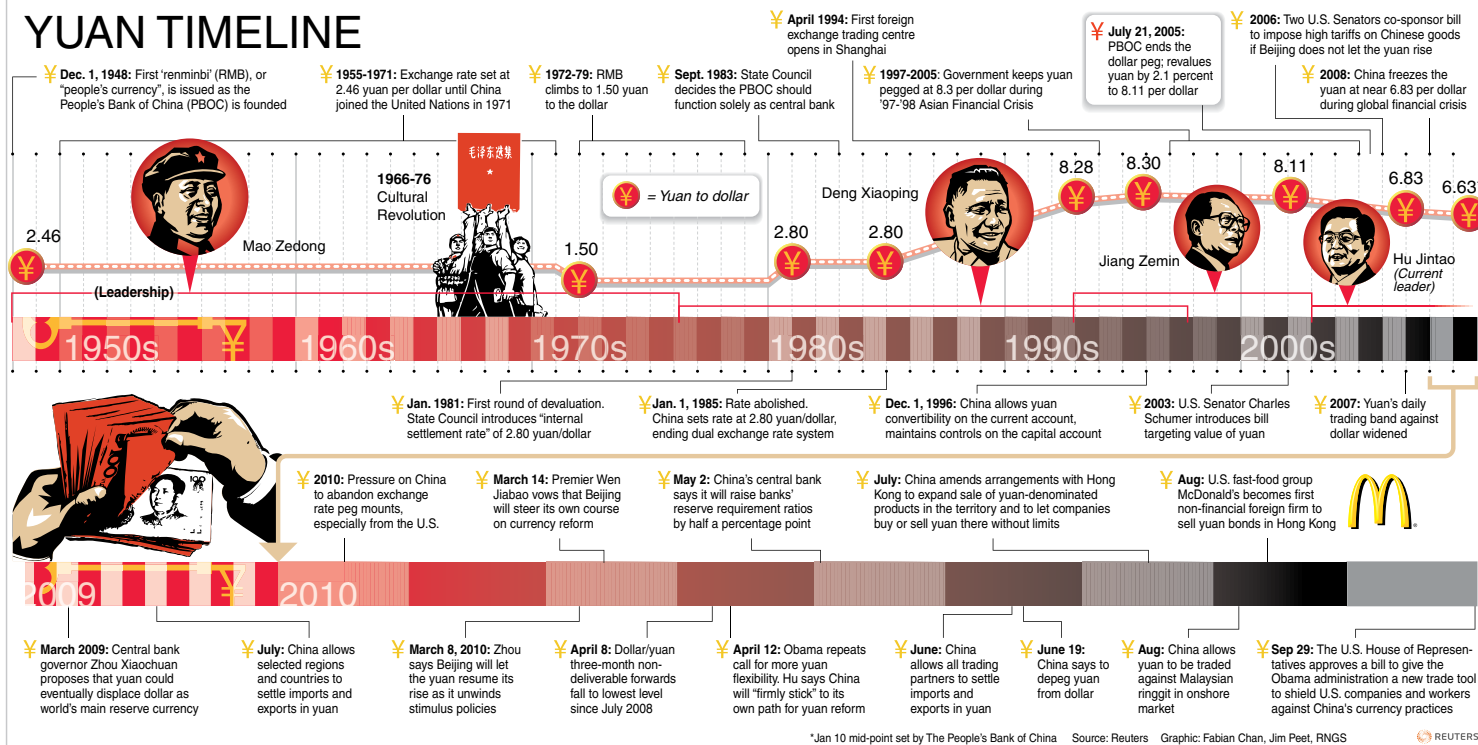
Over time this would help trim the massive Chinese trade surplus with the United States, which economists here fear is a destabilizing threat to world growth.

"The two countries will both gain from a shift away from an excessive focus on the Chinese exchange rate to a discussion of the actions that both can take to reduce their trade imbalances," said Barry Bosworth, a senior fellow at The Brookings Institution in Washington.

"In this sense, the required policies of the two countries are complementary rather than opposed," he said. ■

(Editing by Cynthia Osterman)

YUAN TIMELINE



FOR CHINA, THREAT RECEDES OF U.S. CONGRESS ACTION ON YUAN

BY SUSAN CORNWELL
AND THOMAS FERRARO
WASHINGTON, JAN 13

U.S. LEGISLATION PRESSING for a rise in the yuan currency looms as less of a threat for China on the eve of President Hu Jintao's visit to Washington, now that Republicans control one house of Congress.

But the issue is far from dead on Capitol Hill and could reignite, especially if the U.S. economy fails to improve as expected and the Chinese are seen to drag their feet on letting their currency appreciate.

With the U.S. economy still struggling as China's economy booms, it is popular in the United States to criticize China for currency manipulation. "It's made easier by the fact that they deserve it," said Bill Reinsch, president of the National Foreign Trade Council, a business association.

Many U.S. lawmakers believe China keeps the yuan undervalued by 15 percent to 40 percent to give its companies an unfair price advantage in international trade. They hope President Obama, a Democrat, will pressure his Chinese counterpart over the issue during

Hu's state visit Jan. 19.

Historically, Republicans have tended to be less protectionist than Democrats. "Threatening protectionist trade practices isn't a pathway toward restoring the American economy," one influential House Republican, Representative Mike Pence, told Reuters last week.

Treasury Secretary Timothy Geithner served notice on Wednesday that the United States was unsatisfied with the extent of the yuan's rise since Beijing introduced a more currency flexibility policy in June.

Separately, a senior administration official told Reuters this week Washington is seeking a "real, demonstrative commitment" from China that it is serious about shifting its economic policy away from export-led growth.

Such a commitment might help assuage China's critics in Congress, who are already talking about reviving legislative efforts to punish China in the new session of Congress.

"It's one of the things that's seriously on the table," Democratic Senator Charles Schumer told Reuters last week. He has been trying to pass legislation since 2005, when he

and Republican Lindsey Graham proposed slapping a 27.5 percent tariff on Beijing's exports to the United States.

Some Republicans in the House of Representatives, where they now have a majority, want to try again. Rep. Tim Murphy, a Republican, co-sponsored a bipartisan yuan bill that passed the House last year, but was not taken up in the Senate.

Murphy told Reuters recently his legislative effort in the new Congress could be broadened to address other alleged Chinese trade abuses.

REPUBLICANS SPLIT LAST YEAR

BUT REPUBLICANS SPLIT over the China currency issue last year. Ninety-nine House Republicans voted for the currency bill in September, but Republican leaders all voted against it -- including John Boehner, who is now Speaker of the House, and Eric Cantor, who is now majority leader.

Still, concern about China persists. Murphy said he was reviewing the idea of a comprehensive China trade bill with his fellow Republican Dave Camp, who now chairs the House Ways and Means Committee that

deals with trade issues.

Camp last year voted for the China currency bill. But he said then there were far larger trade issues Congress needed to address, including China's "indigenous innovation" policy.

That refers to Chinese attempts to promote domestic innovation by imposing unfavorable terms on U.S. and other foreign companies, such as requiring them to develop and register intellectual property in China.

Business leaders like U.S. Chamber of Commerce President Thomas Donohue agree some of China's other trade practices may be more damaging to U.S. interests than its currency policies.

In any case, pressing China for an immediate sharp rise in the value of its currency could be bad for both countries, Donohue said Tuesday. The Chinese could "simply drop the price of the products and that would have a more negative effect," Donohue told Reuters Insider.

With seasoned House Republicans split over the wisdom of hitting out at China, one group to watch are the new Republican lawmakers who got elected with the backing of the Tea Party.

The Tea Party was "all over the map" on trade issues, Reinsch said, so it's unclear how their sympathizers would vote. Some were "libertarian" but others "America First."

Dan Ripp of Bradley Woods, a private firm that tracks Washington for institutional investors, thinks it unlikely both houses of Congress will pass a China currency bill.

"My hunch is that Republicans in the new Congress understand that forcing China to appreciate its currency would debase the U.S. dollar," Ripp said. He also dismissed efforts to crack down on China as a "dumb populist idea."

But Democratic Senator Sherrod Brown, a backer of the Schumer effort, said: "Tell the people who are losing their jobs in this country, that it is a 'stupid populist idea'" ■

(Additional reporting by Paul Eckert and Doug Palmer; editing by Todd Eastham)

ECONOMISTS FORETELL U.S. DECLINE, CHINA'S ASCENSION

BY MARK FELSENTHAL
DENVER, JAN 9

TO HEAR A NUMBER of prominent economists tell it, it doesn't look good for the U.S. economy, not this year, not in 10 years.

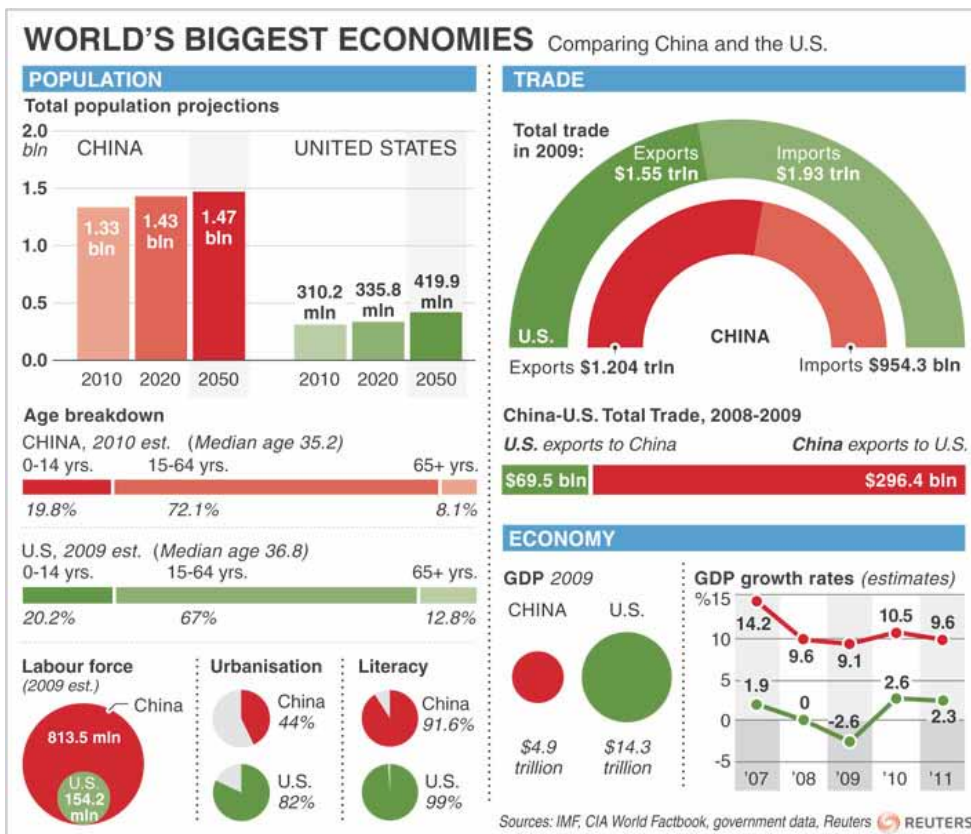
Leading thinkers in the dismal science speaking at an annual convention offered varying visions of U.S. economic decline, in the short, medium and long term. This year, the recovery may bog down as government stimulus measures dry up.

In the long run, the United States must face up to inevitably being overtaken by China as the world's largest economy. And it may have missed a chance to rein in its largest financial institutions, many of which remain too big to fail and are getting bigger.

On the one hand, Harvard's Martin Feldstein said he believes the outlook for U.S. economic growth in 2011 is less sanguine than many believe.

First, the boost to growth from government spending will be drying up this year, he said. Renewal of expiring tax cuts is no more than a decision not to raise taxes, and the impact of one-year payroll tax cut is likely modest, he said.

"There's really not much help coming from fiscal policy in the year ahead," he said. Woes from the dire situations of state and



local governments may actually be a drag on growth, he said.

Growth got a lift from a lower saving rate in

2010, but that probably will not last this year as households worried about an uncertain future return to paring back debt and socking



SPACE RACE: Long March 3C rocket carrying China's second unmanned lunar probe Chang'e-2 lifts off from the launch pad at the Xichang Satellite Launch Center in Sichuan Province October 1, 2010. **REUTERS/CHINA DAILY**

more away, Feldstein added. Discouraging declines in home values mean there is less to save from, he said.

"People are worried, so there's a strong reason for precautionary saving," he said.

THE RACE IS ON

ON THE OTHER HAND, there is the race with China and the dynamic Asian economies, including India. Most estimates put the size of the Chinese economy on par with the United States by the early 2020s, said Dale Jorgenson, also of Harvard.

Jorgenson sees Asian emerging markets as the most dynamic in the world, eclipsing other emerging market contenders such as Brazil and Russia with steady growth over the next decade.

"The rise of developing Asia is going to accompany slower world economic growth," he said.

The United States will need to come to terms with the fact that its prevalence in the world is fated to come to an end, Jorgenson said. This will be difficult for many Americans to swallow and the United States should brace for social unrest amid blame over who was responsible for squandering global primacy, he said.

MIT's Simon Johnson put it more bluntly, saying the damage from the financial crisis and its aftermath have dealt U.S. prominence a permanent blow.

"The age of American predominance is over," he told a panel. "The (Chinese) Yuan will be the world's reserve currency within two decades."

Johnson said he believes the United States has failed to learn its lesson from the financial crisis and continues to implicitly back its largest financial institutions.

"I'm concerned about the excessive power of the largest global banks," he said. "Who are the government-sponsored enterprises now? It's the six biggest bank holding companies."

To be sure, Raghuram Rajan, a former IMF chief economist now with the University of Chicago's Booth School of Business, could still envision an ongoing U.S. leadership role.

Nothing proceeds in a straight line, he said, and there are many pitfalls along the way even for dynamic Asian economies.

"I would say the age of American dominance may be nearing an end. But America as the biggest mover will be in place for a long time," he said. ■

(Reporting by Mark Felsenthal;
editing by Maureen Bavdek)



TRADE IMBALANCE: A woman walks next to containers at the Port of Shanghai January 10, 2011. REUTERS/ALY SONG

DEFICIT AND DOGMA TO FRUSTRATE HU, OBAMA ON TRADE

BY MICHAEL MARTINA
AND DOUG PALMER
BEIJING/WASHINGTON, JAN 11

CHINA IS SLOWLY DELIVERING on a vow to cut its overall trade surplus, but the structure of global commerce and a raft of pro-export policies ensure that its trade advantage over the United States will cloud relations between the two for years to come.

That increasing divergence -- the shrinking of China's overall surplus in contrast with a growing imbalance with the United States -- sets the stage for frustrating trade talks when Chinese President Hu Jintao visits Washington next week.

The United States will point to a bilateral trade gap which grew 26 percent last year to \$181 billion, according to Chinese data, as evidence of the problems. In response, China can say its total surplus, at \$183 billion, is down nearly 40 percent from its pre-crisis 2008 peak.

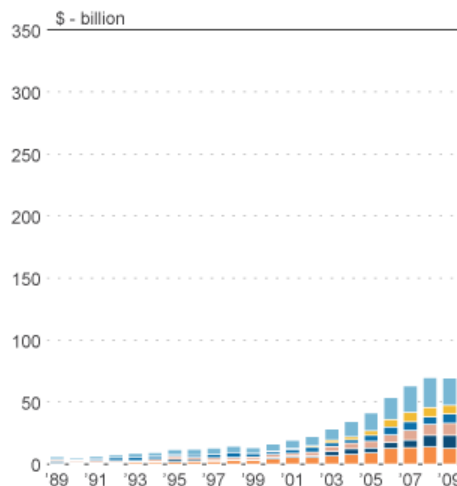
Whether U.S. President Barack Obama pushes for faster yuan appreciation or more market access for U.S. firms, Hu will be able to argue that China is doing its part to resolve the imbalance, and the onus is on the United

U.S.-China trade: biggest exports, imports

Trade between the U.S. and China remain largely unbalanced with the U.S. importing over four times the value of goods it exports to China.

U.S. exports to China, top five products

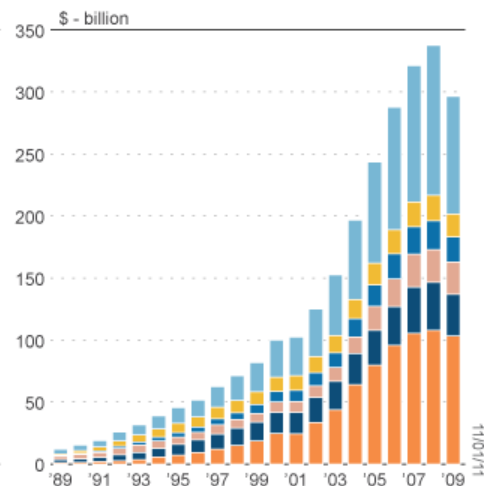
- Computer, electronic products
- Agricultural products
- Chemicals
- Transportation equipment
- Waste, scrap
- Other



Source: U.S. Commerce Department's International Trade Administration

U.S. imports from China, top five products

- Computer, electronic products
- Miscellaneous manufactured commodities
- Apparel manufacturing products
- Electrical equipment; appliances, components
- Leather, allied products
- Other



REUTERS

Reuters graphic/Van Tsui

States.

"The U.S. had a trade deficit with 92 countries in 2009. So, the United States doesn't just have problems with China and it has little to do with the renminbi," said Zhou Shijian, a senior fellow at the Center for U.S.-China Relations at Tsinghua University in Beijing.

"It is an old problem, a structural problem, that has been around for more than 10 years," he added.

Jeremie Waterman, senior director for China at the U.S. Chamber of Commerce, agreed that structural factors contribute to the huge trade imbalance, but said Chinese government policies are also to blame.

"They've clearly pursued over a number of years very much an export strategy as part of their development," he said. "If China were truly a market economy, they would not have the kind of export numbers that they do."

Barriers to China's services sectors also prevent U.S. financial, telecommunication and express delivery companies from doing more business there, Waterman said.

PROCESSING FRICTION

LAST WEEK, Chinese Vice Minister of Commerce Jiang Yaoping said the root of the U.S. trade imbalance had less to do with the value of the yuan and more to do with the nature of China's processing trade, in which multinational firms import intermediate goods and assemble them into products for export.

Jiang said those products are only partially manufactured in China, but recorded as Chinese exports.

"We have adjusted the yuan's exchange rate since 2005, but we can see that China's trade surplus with the United States, especially the surplus in the processing trade, basically did not change," Jiang told a forum. "That is to say, the yuan's exchange rate has no big impact on the trade surplus," he said, adding that 80 percent of the U.S. trade deficit stems from U.S. firms' operations in China.

Independent researchers back up that claim.

A paper by the Asian Development Bank Institute published in December noted that high-tech products such as laptops and mobile phones sold by U.S. firms contribute to China's bilateral surplus, at least from a statistical perspective. The iPhone alone added \$1.9 billion to the gap between the two countries in 2009, its authors, Yuqing Xing and Neal Detert, said.

Examination of the data shows the Chinese advantage is not what it seems.



MORE IPHONES PLEASE: A general view shows Keelung port in northern Taiwan June 7, 2010. REUTERS/PICHI CHUANG

Assembly in China contributed just 3.8 percent of the value of 'made-in-China' iPhone sales to the United States. The rest of the \$1.9 billion comes from items such as touch screens produced in Japan and a camera produced in Germany, Xing and Detert found.

Accounted for properly, the iPhone would add just \$73.5 million to China's bilateral trade surplus with the United States.

"Bilateral trade imbalances between a country used as a final assembler and its destination markets are greatly inflated by trade in intermediate products. These statistics provide a distorted picture about bilateral trade imbalances," they concluded.

BREAK IN THE CLOUDS

APPEALS FOR A more nuanced understanding of global trade structure may not go down well in the United States, where the unemployment rate remains close to double digits.

Still, there are some changes that augur well for a narrowing of the two giants' trade gap over time.

China's voracious appetite for commodities is now spreading to agricultural products, an area where the United States with its vast, modern farms is well placed.

China buys 60 percent of the soy that is globally traded, and much of its supply

comes from the United States.

In 2010, China also became a major importer of U.S. corn for the first time in 15 years. And U.S. beef shipments to China may pick up strongly after Beijing agreed to lift a ban imposed in 2003 on fears of mad cow disease.

A business delegation will accompany Hu on his trip, and about a dozen corporate executives from each country are expected to join Obama and Hu at the White House.

That could lead to deals worth potentially billions of dollars for U.S. companies if Chinese Premier Wen Jiabao's recent visit to India, where \$16 billion in deals were signed with Indian firms, is any indication.

From Beijing's perspective, these gains only serve to illustrate that it is up to the United States to produce what China needs and to remove bans on exports of high-tech goods that Washington fears may be put to military use.

"We must look at the trade imbalance from a global perspective, and that means the United States must work hard to increase its own exports," said He Weiwen, a trade expert at the University of International Business and Economics in Beijing. ■

(Additional reporting by Simon Rabinovitch and Zhou Xin; editing by Alan Wheatley and Daniel Magnowski)

KEY ISSUES IN U.S.-CHINA TRADE

THE UNITED STATES wants a “more equitable commercial relationship” with China and greater follow-through on U.S.-China trade agreements, Commerce Secretary Gary Locke said on Thursday. The remarks by Locke, the latest Obama cabinet China policy speech ahead of Chinese President Hu Jintao’s visit next week, followed a speech on Wednesday by Treasury Secretary Timothy Geithner, who urged China to move faster in allowing its currency to appreciate and to remove other trade barriers.

President Barack Obama hosts Hu for a state visit on Jan. 19 and administration officials say he will raise a range of economic issues, ranging from intellectual property rights to investment restrictions and barriers to markets.

Almost 10 years after China’s entry into the World Trade Organization, U.S. officials complain China has not fully implemented many important commitments to open its market and relies on industrial policies to promote domestic firms at the expense of foreign companies. The following is a snapshot of some of the problem areas:

LEGAL SOFTWARE

MICROSOFT AND OTHER MEMBERS of the Business Software Alliance in the United States complain that nearly 80 percent of the software installed on personal computers in China is pirated. They have called for a “results-based” deal to boost U.S. software sales and exports to China by 50 percent in two years. China has promised to plan for legal software purchases in its government budgets.

At U.S.-China trade talks last month, Chinese officials pledged to increase use of legal software.

PIRACY AND COUNTERFEITING

THE INTERNATIONAL INTELLECTUAL Property Alliance, which represents U.S. copyright industry groups, has estimated U.S. trade losses in China due to piracy at \$3.5 billion in 2009.

Meanwhile, U.S. customs officials say 80 percent of the fake tennis shoes, clothing, luxury bags and other goods they seize each year at the border come from China.

China has responded to U.S. complaints

with a new six-month campaign that began in November aimed at counterfeit books, music, DVDs and software. China has promised “concrete results” from the latest crackdown, but U.S. groups say a sustained effort is necessary to achieve real results.

INDIGENOUS INNOVATION

BIG U.S. COMPANIES like General Electric are worried that China’s “indigenous innovation” policies could make it more difficult for them to compete in China. The regulations are intended to promote innovation within China and reduce its dependence on foreign technology and companies.

U.S. industry fears China is using discriminatory policies in areas ranging from government procurement to technical standards and tax policy to promote its state-owned enterprises at the expense of foreign firms.

BEEF

CHINA, ALONG WITH MANY other countries, banned imports of U.S. beef in 2003, when the first case of mad cow disease was found in the U.S. cattle herd. Only three animals in the United

States have tested positive for the disease, the last in 2006. The United States says it has taken appropriate steps to ensure its beef is safe and China’s continued ban is unjustified. It has rejected conditions offered by China for resuming imports, saying they were not commercially viable and did not conform with international food safety standards.

CLEAN ENERGY

THE UNITED STATES HAILED China’s announcement in 2009 that it was dropping a 70-percent local content provision for wind turbines after U.S. officials complained it was inconsistent with Beijing’s World Trade Organization commitments.

But China’s critics in Congress charge that China simply found other ways to thwart U.S. sales. The United Steelworkers union accuses China of using illegal subsidies and other trade-distorting policies to create jobs in its clean energy sector at the expense of the United States. They want the U.S. Trade Representative’s office to file a case at the WTO.

RARE EARTHS

CHINA, WHICH CONTROLS 97 percent of currently available global rare earth supplies, has alarmed its trading partners by restricting exports of the minerals which are used in a variety of clean energy and high-industry technologies.

The U.S. Chamber of Commerce has pressed the United States to secure a commitment from China to remove rare earth export taxes and quotas, and the United Steelworkers union also raised concern about the issue in its petition to USTR.

China has defended its restrictions as measures to manage supplies and control pollution associated with rare earth production. USTR officials have said they are looking at what action they can take, and note they have challenged other

Chinese export restrictions at the WTO.

INVESTMENT

BEIJING COMPLAINS that Washington, while pushing for greater access for U.S. firms in the Chinese market, imposes unwarranted restrictions on Chinese investment in the United States, often citing national security concerns. China says it wants a level playing field for its investment into the United

States, saying that its intentions are benign and will benefit the U.S. economy and create jobs. Meanwhile, U.S. companies complain China restricts investment opportunities in many services sectors.

EXPORT CONTROLS

CHINA SAYS IT WOULD BUY more from the United States if not for overly restrictive U.S. controls on high-technology goods. The United States says China’s argument is overstated. But it is in the process of reforming its export control system, which could lead to increased sales of some less-sensitive items.

Experts say better Chinese protection of U.S. intellectual property is a prerequisite for any major easing of export controls. Without that, say analysts, U.S. tech exports will taper off as Chinese firms copy the products. ■

(Reporting by
Doug Palmer and Paul Eckert;
editing by Paul Simao)

ANALYSIS

OBAMA AND HU SEEK COMMON GROUND
AMID MISTRUST AND STUBBORN DISPUTES

WHITE HOUSE SUMMIT: U.S. President Barack Obama, first lady Michelle Obama and members of the White House staff take part in a moment of silence in honor of the victims of the shooting in Arizona that injured U.S. Representative Gabrielle Giffords (D-AZ), in Washington January 10, 2011. **REUTERS/JIM YOUNG**

BY CHRIS BUCKLEY AND PAUL ECKERT
BEIJING/WASHINGTON, JAN 12

AFTER CHINESE PRESIDENT HU JINTAO and Barack Obama show the world smiles and handshakes next week, the wait will begin for the next of the feuds that have regularly sapped trust between the two powers.

Their summit at the White House on Jan. 19 is sure to be garlanded in vows of friendship and respect that, however sincere, belie tensions that could upset ties between the world's top two economies, as they did in 2010.

In the summit build-up, both sides have promoted hopes for more stable ties, playing down disputes that flared last year over trade, currency and North Korea, and tensions over U.S. military presence in Asia, Taiwan, Tibet

and human rights.

"There needs to be a strong signal to both countries and to the world that the U.S. and Chinese leadership have a very firm commitment to working together not only in areas where they can cooperate but also in addressing some of the problems that have emerged recently," said Michael Swaine of the Carnegie Endowment for International Peace in Washington.

A jittery Asia and the wider world are watching to see if Hu and Obama can pull that off.

But a successful summit may only delay and perhaps dilute the next feud to test trust between the two nations, which are heavily interdependent economically but deeply disparate politically, said analysts.

China's abrupt flight testing of its first stealth fighter during this week's visit by

U.S. Defense Secretary Robert Gates showed relations can face jack-in-the-box surprises even when a state visit beckons.

"It's quite possible that after this visit, China-U.S. relations will remain relatively stable for a while, for say this year," said Jin Canrong, a professor at Renmin University in Beijing who studies China-U.S. relations.

"But this can't be sustained for too long, because a visit can create a healthy atmosphere but can't alter the structure of China-U.S. relations and the conflicts that it generates."

Beyond trade disputes and wrangling over Taiwan or human rights, a bigger risk is an incident that spirals into crisis.

"We've been incredibly lucky over the last 10 years that we've not had a very significant accident or collision of one sort or another with the Chinese military that has resulted

in significant loss of life and a real escalatory problem," said James Mulvenon, a military analyst at Defense Group, Inc.

SLOUCHING EAGLE, SWAGGERING DRAGON

A SENIOR OBAMA administration official, who spoke on condition of anonymity, said the United States and China are in a "unique and challenging relationship that has to be worked at" even without troubles over North Korea and trade.

"There are lots of structural reasons why there are challenges in the relationship, beginning with the challenge of an established power and a rising power, going to the fact that we do have differences in our political systems, our history, our culture," said the official.

The 2008 financial crisis has magnified those rifts.

Economic woes have weighed down a United States already sapped by two wars, while China's coffers and sense of entitlement at the table of world governance have swelled.

"Obviously, there is a power transformation under way. It's not that China is catching up with the United States rapidly, but China is certainly moving up," said Jingdong Yuan, a China expert at the University of Sydney in Australia.

"Increasingly, there is less willingness for China to simply take instructions from

Washington on what to do."

The power shift has been magnified in the public eye. Surveys in both countries show many people believe -- wrongly -- that China's economy is already outgrowing America's.

Powerful constituencies in the United States worry that China's growing economic and military power could undermine U.S. prosperity and preeminence -- gutting American industry and seeking to drive the United States out of Asia.

Many in China, including officials and military officers, believe the United States is set on strangling their country's rise by strategic encirclement through military alliances with Japan and South Korea and a new embrace of India.

"Both sides possess a kind of confrontational DNA," said Sun Zhe, a U.S.-China expert at Beijing's Tsinghua University.

A misreading of U.S. motives contributed to missed opportunities after Obama took office in 2009 and tried to embrace China as a partner in tackling the financial crisis and other global issues, U.S. analysts said.

"The Chinese took that as weakness," said Stefan Halper, an American scholar at the University of Cambridge in England.

In past months, Chinese officials have made a point of reiterating that their position that China has neither the capacity nor the desire to challenge the United States as a superpower on the world stage.

'DOMINATE THE WORLD'

"THE NOTION THAT CHINA wants to replace the United States and dominate the world is a myth," State Councillor Dai Bingguo, who advises Chinese leaders on foreign policy, wrote in an essay published late last year.

Yet striking a balance between realist modesty and aspirations for a bigger voice has proven difficult for China.

"Hu also has to deal with domestic opinion ... and that opinion has strongly anti-American currents," said Shi Yinong, an international relations expert at Renmin University in Beijing.

Optimists hope Hu's visit will buy time for the two powers to achieve a steadier footing and show they can work together on the global stage addressing economic imbalances, nuclear disputes and global warming.

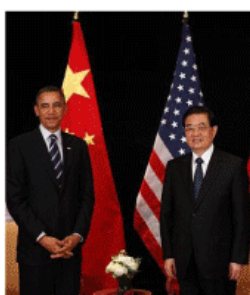
Less optimistic analysts say trouble is inevitable.

"There are many disputes between China and the U.S. that have been temporarily set aside, and any of them could well up under certain circumstances, leading to a fresh round of feuding between the two," Yan Xuetong, a prominent, hawkish Chinese security analyst, wrote in a recent essay. ■

(Additional reporting by Arshad Mohammed, Caren Bohan and Emily Kaiser; editing by Todd Eastham)

U.S.-China relations under President Barack Obama

Jan. 23: Two days into Obama's presidency, Treasury Secretary Timothy Geithner infuriates China by telling the Senate Finance Committee in written remarks that Obama "believes that China is manipulating its currency."



Nov. 15-17: Obama makes state visit to China that U.S. media widely report as devoid of achievement --angering the White House--which argues that he forged personal ties with Hu.



Jan. 12: Google threatens to pull out of China over censorship and hacking attacks from within the country.

Jan. 29: Obama administration tells U.S. Congress of proposed arms sales to Taiwan worth \$6.4 billion. China condemns the sales and threatens sanctions on companies involved.

July 23: China's Foreign Minister Yang Jiechi erupts in anger after Hillary Clinton raises the issue of disputes in the South China Sea at a regional forum in Hanoi.

2009 Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec. 2010 Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.

Feb. 20: Secretary of State Hillary Clinton, on eve of visit to China, pleases Beijing but angers activists when she says pressing China on human rights "can't interfere" with efforts to tackle the global economic crisis, climate change crisis and security issues.

March 8: A U.S. Navy surveillance ship, the Impeccable, is harassed by five Chinese Naval ships while monitoring submarine activity in waters off Hainan, China.

Dec. 18: Climate change summit in Copenhagen results in a U.S.-China showdown and a failure to achieve a far-reaching agreement to curb greenhouse emissions.

Feb. 18: Obama meets the Dalai Lama, the exiled Tibetan leader, at the White House. China reviles the Dalai Lama as a separatist for advocating self-rule for Tibet and condemns the meeting.



June 27: Obama angers Beijing by describing China's refusal to acknowledge North Korean responsibility for the sinking of a South Korean warship in March as "wilful blindness to consistent problems."

Source: Thomson Reuters

Reuters graphic/Brice Hall

REUTERS

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Q&A

WHY DO US - CHINA MILITARY TIES MATTER?

WHY ARE THE COUNTRIES TRYING TO DEEPEN MILITARY TIES NOW?

U.S. DEFENSE SECRETARY Robert Gates visited Beijing to bolster military ties a week before Chinese President Hu Jintao visits the United States, and a year after Chinese anger over U.S. arms sales to Taiwan curtailed Sino-U.S. military contacts.

After that row, Beijing and Washington also argued over how to handle rival Asian territorial claims in the South China Sea and over U.S.-South Korea joint exercises in the Yellow Sea near China.

Those disputes did not lead to military confrontations, but they were a reminder that China's growing military strength is increasingly pressing up against the big U.S. military footprint across Asia and the Pacific.

The Obama administration has said it is committed to maintaining that presence, but it says it wants dialogue with China's People's Liberation Army (PLA) so the two forces avoid mistakes, such as collisions, that could blow up into bigger conflicts.

Hu's visit offers Obama an opportunity to make his case for closer military ties, and Gates's visit will pave the way for that summit.

WHAT HAS GONE WRONG WITH MILITARY TIES IN THE PAST?

MILITARY RELATIONS have gone through several rounds of modest warming and abrupt cooling since China and the United States established diplomatic relations in 1979.

China has often curtailed military ties to show its anger over issues like Taiwan.

The two countries have repeatedly quarreled over Taiwan, the self-ruled and democratic island China claims as its own and whose defenses the United States is bound by law to aid.

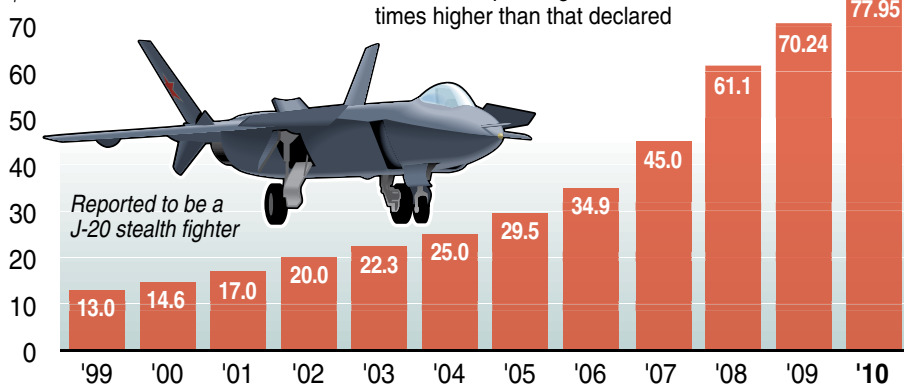
After the PLA used gunfire and tanks to quell pro-democracy protests in China in June 1989, Washington suspended military contacts and arms sales. Since then, some Americans have argued there is little value in courting the PLA.

"Over the past three decades, security cooperation between the defense-military establishments of the United States and the PRC (People's Republic of China) has been the exception rather than the rule," David

CHINA'S MILITARY BUDGET

CHINESE DECLARED DEFENCE SPENDING

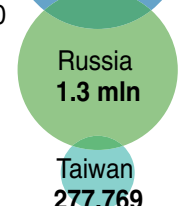
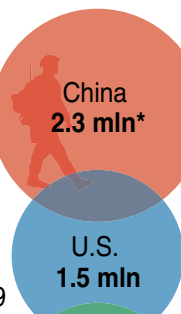
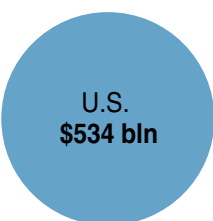
\$ Billions



Military budget 2009

Army

Air force and navy***



	China	U.S.	Russia	Taiwan
Air force** war planes	2,000+	2,300	2,400	About 400
Cruisers	0	22	4	0
Destroyers	26	61	4	9
Frigates	47	30	10	22
Submarines	63	67	40	4
Aircraft carriers	0	11	1	0
Nuclear warheads	400	7,900	14,000	0

* Does not include about one million Chinese reserves and about 800,000 paramilitary People's Armed Police.

** PLA Navy, U.S. Navy and Marine Corps, and Russian navy also operate fighter aircraft.

*** Warship numbers mostly analyst estimates, apart from those for the United States.

Sources: Reuters, International Institute for Strategic Studies, globalsecurity.org, Stockholm International Peace Research Institute, U.S. Navy, Taiwan's Ministry of National Defence

REUTERS

Finkelstein, an expert on the Chinese military with CNA, a group in Virginia that advises on security issues, wrote in a recent survey of U.S.-China defense ties.

"Both sides have perceived the costs of suspending military contacts as near-negligible," he wrote.

WHY DO THESE PROBLEMS MATTER?

THEY MATTER BECAUSE China's military is growing stronger, while the United States keeps a big presence in countries and seas near China, and that could be a recipe for dangerous miscalculations.

China and the United States are not

thought remotely likely to go to war against each other. Still, Taiwan remains a potentially volatile dispute, and analysts say missteps and accidents at sea or in the air could spiral into destabilizing confrontations.

Such clashes have happened in the past, and China's growing military reach heightens the risk of more.

In 2001, a Chinese fighter plane collided with a U.S. surveillance aircraft in the skies near China, killing the Chinese pilot and forcing the U.S. plane to land on a Chinese island. The resulting diplomatic standoff took over a week to defuse and bruised relations.

There have also been jostling incidents between U.S. naval and surveillance ships and Chinese ships in the South China Sea.

WILL GATES'S VISIT OVERCOME THESE PROBLEMS?

GATES'S VISIT MAY help draw the two militaries closer together, restoring some of the exchanges that were curtailed in 2010. But nobody expects major breakthroughs.

This is a gradual process that could easily again go into reverse.

"In the ups and downs in Chinese-U.S. relations, military ties are always the first to suffer casualties," said Jingdong Yuan,

CHINA UNVEILS STEALTH FIGHTER

CHINA CONFIRMED its first test flight of a stealth fighter jet on Jan. 11 during a visit by U.S. Defense Secretary Robert Gates supposedly aimed at reducing tensions. Gates said he had been told the test had nothing to do with his presence.

Analysts were more doubtful, saying the move was likely aimed at impressing outside rivals and local public opinion. They say Beijing has been far from transparent in what its military ambitions are, but the focus looks to be on building naval forces to counter



REUTERS/KYODO

U.S. influence in their immediate area and secure vital sea lanes further afield.

Although China's first fifth-generation fighter aircraft -- the J-20 -- is still years away from deployment, it has raised the stakes in a technology field dominated by the United States, the only operator of radar-evading planes.

Leaked photos and video show a potentially advanced exterior design, but the aircraft's status, sophistication and capabilities are still unclear.

a professor at the University of Sydney in Australia who specializes in Chinese security policy.

"Unlike other aspects of bilateral relations where there are mutual interests, especially in economic ties, in military ties really neither side seems to think they're gaining anything

so it's easy, especially from the Chinese side, to use them to make a political statement whenever the U.S. side does something that the Chinese considers detrimental to its interests," said Yuan. ■

(Reporting by Chris Buckley; editing by Daniel Magnowski)



RAISE ARMS: U.S. Secretary of Defense Robert Gates reviews Chinese military troops at an arrival ceremony at Bayi Building in Beijing January 10, 2011. **REUTERS/LARRY DOWNING**

CHINA SAYS IT SHARES U.S. GOALS ON NORTH KOREA

BY CHRIS BUCKLEY
AND JEREMY LAURENCE
BEIJING/SEOUL, JAN 12

China and the United States share “broad interests and goals” for the Korean peninsula, a senior Chinese diplomat said on Wednesday as U.S. officials warned that Washington increasingly views North Korea as a direct threat.

The Chinese diplomat, Vice Foreign Minister Cui Tiankai, also repeated calls to restart six-party talks on North Korea’s nuclear disarmament. His comments came ahead of President Hu Jintao’s state visit to the United States from Jan. 18 to 21.

U.S. President Barack Obama is likely to urge Hu to increase pressure on North Korea, which triggered regional security concerns last year after the two attacks against South Korea and revelations of advances in its nuclear program.

“China and the United States share broad interests and goals on issues about the (Korean) peninsula,” Cui told a news conference in Beijing. “Both countries believe we must protect the peace and stability of the peninsula.”

His remarks came a day after visiting U.S. Defense Secretary Robert Gates told reporters in Beijing he expected North Korea to develop intercontinental ballistic missiles within five years.

Gates said because of its nuclear arms and ballistic missile programs, Pyongyang was increasingly becoming a direct threat to the United States, a concern underscored by the top uniformed U.S. military officer on Wednesday.

“This is an evolving threat not just to the region but to the United States specifically,” Admiral Mike Mullen, chairman of the Joint Chiefs of Staff, told reporters in Washington, noting that North Korea’s leader has “not been shy about provocations.”

“It’s a really dangerous time. ... This capability that he is developing is becoming more and more dangerous so that potential provocations could become more and more catastrophic,” Mullen said, adding that China had a “great responsibility” to help calm the situation.

Beijing sees the resumption of six-party talks, last held in 2009, as a key to resolving



ROGUE STATE: North Koreans attend a mass rally on the Kim Il Sung square in Pyongyang January 3, 2011. REUTERS/KYODO

the latest standoff between the two Koreas, which are still technically at war after signing only a truce in 1953.

HOTLINE REOPENED

THE RIVAL KOREAS engaged on Wednesday for the first time in weeks via a reopened border hotline. The North, which has appealed almost daily for talks since the start of the year, proposed discussions about reopening tourist links, severed after the shooting of a South Korean tourist in 2008.

Seoul says its impoverished neighbor is only reaching out for talks in order to win aid and financial support, and that it will only hold “real talks” about last year’s two deadly attacks against the South.

Relations between the two plummeted to their lowest level in years after the sinking of a South Korean warship and the shelling of a South Korean island last year, which killed a total of 50 people.

The North denies the South’s claim it torpedoed the ship, and said it attacked the island only after South Korean shells landed in its waters.

President Lee Myung-bak’s government, under pressure over its perceived weak

response, has vowed to hit back hard the next time it is attacked, promising to retaliate with air power and bombs. Washington and Beijing have urged restraint on both sides, worried the situation could spiral out of control.

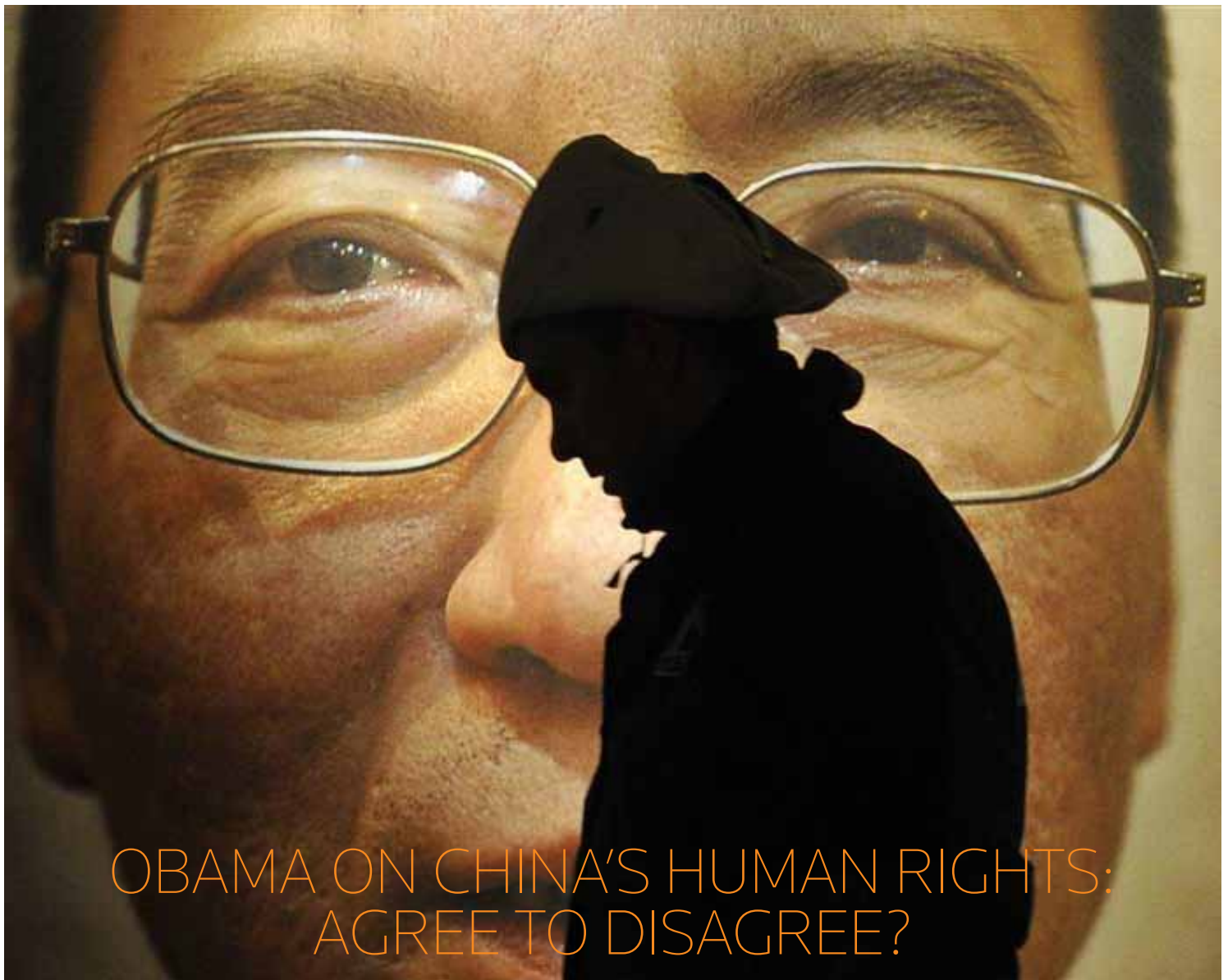
Since the start of the year, the secretive North has reached out to its neighbor, substituting its war-like rhetoric from December with a series of peaceful overtures.

Seoul, however, views Pyongyang’s offer for talks as insincere, and says the North must first take actions that account for last year’s attacks and show sincerity in following through on its denuclearization pledges.

North Korea has previously rejected discussions on its nuclear arms development in dialogue with South Korea, saying the activity is aimed at deterring a U.S. invasion.

On Wednesday, the South gave some ground by agreeing to reopen a Red Cross communications hotline at the border, shut down after the sinking of the Cheonan corvette last year. ■

(Additional reporting by Danbee Moon in Seoul and David Alexander in Washington; editing by Miral Fahmy and Todd Eastham)



OBAMA ON CHINA'S HUMAN RIGHTS: AGREE TO DISAGREE?

JAILED DISSIDENT: Workers prepare the Nobel Peace Prize laureate exhibition "I Have No Enemies" for Chinese dissident Liu Xiaobo at the Nobel Peace Center in Oslo December 9, 2010.
REUTERS/TOBY MELVILLE

BY MATT SPETALNICK
WASHINGTON, JAN 13

FEW DIPLOMATIC RITUALS are more predictable than U.S. presidents prodding Chinese leaders over China's human rights record.

So when President Barack Obama hosts Chinese President Hu Jintao next week, the only real suspense will be over how forcefully and publicly he takes his Chinese counterpart to task before they turn to other priorities like currency, trade and North Korea.

The consensus among China watchers: Obama, stung by criticism that he was too deferential to Beijing when he visited in 2009, will be just a bit more assertive in addressing rights concerns with President

Hu on U.S. soil.

But mindful of China's growing economic and diplomatic clout, he will stick to a quieter, more nuanced approach than recent predecessors like Bill Clinton, who bluntly told the country's rulers they were on the "wrong side of history."

China's response to any U.S. critique of its handling of civil liberties, religious freedom and Tibet is likely to be essentially the same as before: mind your own business.

The bottom line, though, is that neither side wants fresh discord over human rights to undermine their main goal of Hu's Jan. 19 visit, which is to ease overall strains and set a better tone between the world's two biggest economic powers.

"The administration can't avoid paying lip

service to human rights in China," said Dean Cheng, a China expert at the conservative Heritage Foundation in Washington. "But it won't go much beyond that. It's a case of agreeing to disagree."

Obama faces a balancing act -- talking tough enough to ease criticism of his muted approach while measuring his rhetoric to avoid antagonizing China's prickly communist leadership. He may also feel the need to tread cautiously because of Beijing's role as America's largest creditor.

HOW LOW CAN IT GO?

So where will human rights rank on the agenda for the talks? Much lower than international rights campaigners want.

The main focus is more likely to be

on guns-and-butter disputes that have escalated tensions over the past year, like China's contentious exchange-rate policy, a ballooning trade gap, North Korea's nuclear program and its deadly attacks on South Korean targets, and U.S. arms sales to Taiwan.

Obama's aides deny he has soft-pedaled the China rights issue in his first two years and insist he is committed to pressing Beijing over its record -- it's just that he prefers to reserve his sharpest language for behind closed doors.

"If you speak directly to the president of China about your concerns about their record on human rights, I don't think that's soft-pedaling," said Obama spokesman Robert Gibbs.

Still, rights groups are disappointed with the results of what they see as a mostly muted U.S. approach on China.

When jailed dissident Liu Xiaobo won the Nobel Peace Prize last year, no one was present to accept it in Oslo. Dozens of his supporters were detained or blocked from leaving China.

Though Obama joined international condemnation, China routinely dismisses such complaints as meddling.

In a report issued this week, Human Rights Watch said continued use of torture, illegal detention, censorship and other abuses show China has failed to deliver on a government

"action plan" that was supposed to protect human rights.

Notably, the Obama administration has avoided some gestures it thought likely to irk China.

The president held off on a White House meeting with the Dalai Lama, Tibet's exiled spiritual leader, until February of last year, after the Beijing summit. Some advisers had argued against the delay, which was widely panned at home as appeasement of the Chinese.

Obama must now decide how vocal he will be during Hu's visit. The White House seems to have overcome Chinese objections to a joint news conference, which will give Obama a chance to address human rights and also open the Chinese president up to a rare give-and-take with reporters.

OBAMA'S CHALLENGE

OBAMA'S CHALLENGE will be to satisfy multiple audiences in the United States, where China's rights record can galvanize conservatives and liberals, religious groups and trade unions.

Many Republican critics demand that Obama show a strong hand with an increasingly assertive China, but they coexist with others who see the priority as protecting U.S. companies' access to the lucrative Chinese market.

Rights groups have lobbied in vain for

Obama to roll back a China policy pursued in one form or another by both Democratic and Republican administrations to deal with human rights mostly on a separate track from economic and security issues.

China has long rejected U.S. criticism on human rights as a vestige of the Cold War. It has also honed counter-arguments: that the United States is hypocritical, China is committed to its own version of human rights, and fighting poverty and spurring development take precedence over political freedoms.

And with China wielding more power in the world, it seems increasingly reluctant to make concessions to Washington, especially after a financial crisis that many Chinese saw as discrediting free-wheeling U.S.-style capitalism.

Chinese rights campaigners are sounding more dispirited about chances for a serious push from Obama. He raised expectations after winning the 2009 Nobel Peace Prize, an achievement many believe was mostly for lofty speechmaking.

"He's not exerting as much power as he should," said Teng Biao, a Chinese activist and law professor. ■

(Additional reporting by Caren Bohan in Washington, Chris Buckley and Sui-Lee Wee in Beijing; editing by Todd Eastham)

POMP AND CIRCUMSTANCE KEY TO SUMMIT

THE POMP AND CIRCUMSTANCE surrounding Chinese President Hu Jintao's visit is likely to play an important role in the success or failure of the event.

In a signal of the importance the United States places on the relationship with China, President Barack Obama is according Hu the trappings of a full state visit, marking only the third such affair Obama has hosted. The leaders of India and Mexico were also treated to state visits.

China had eagerly sought a state visit for Hu, who was granted only an "official" visit by President George W. Bush in 2006 that included a lunch instead of a black-tie dinner.

There are risks for Obama in opting for the full state visit. If anything goes wrong, it could cast a cloud over talks focused on currencies, North Korea, military ties and

other issues.

Hu's 2006 U.S. visit was marred by glitches, including incidents in which a shouting protester from the Falun Gong spiritual movement interrupted the South Lawn arrival ceremony and Hu's People's Republic of China was incorrectly identified as the Republic of China -- rival Taiwan's formal name.

To avoid snafus, officials are carefully reviewing protocol for a visit that has involved months of planning.

Here is a list of the main events on the program:

- * A formal arrival ceremony on the South Lawn, complete with a 21-gun salute, honor guards, a review of the troops by each president and anthems played by military bands.

- * A series of meetings between the two presidents and their aides.

- * A joint White House press conference by Obama and Hu -- an event that required negotiation by the White House since the Chinese president typically does not take questions from reporters.

- * A black-tie state dinner that will be attended by U.S. and Chinese officials as well as prominent Chinese-Americans, businesspeople and others who have ties to China through their work in the arts or other professions. Though the menu and guest list for that event is sure to draw a lot of attention, the White House hopes to keep those details a closely guarded secret until the day of the state visit. ■

(Reporting by Caren Bohan; editing by Xavier Briand)

PRESIDENT HU JINTAO'S VISIT

TUESDAY, JAN. 18

Hu arrives and attends private dinner with President Barack Obama at the White House.

WEDNESDAY, JAN. 19

MORNING:

■ Arrival ceremony on the South Lawn

■ Bilateral meetings at the White House

■ Obama and Hu drop by meeting of Chinese and U.S. business executives

■ Joint press conference in White House East Room

AFTERNOON:

■ Luncheon at State Department hosted by Vice

President Joe Biden
EVENING:

■ Formal state dinner at the White House

THURSDAY, JAN. 20

■ Hu visits Capitol Hill for meeting with Republican and Democratic congressional leaders

■ Hu delivers address at U.S.-China Business Council

■ Departs for Chicago. Will likely visit a Chinese-owned auto parts plant (day not clear).

FRIDAY, JAN. 21

Hu departs Chicago, ends U.S. trip



SNAFU: Chinese President Hu Jintao (L) looks back at U.S. President George W. Bush as Bush reaches out and pulls him back by his suit jacket as the President of China prepared to walk down the wrong set of steps to leave the stage during official South Lawn Arrival Ceremonies at the White House in Washington, April 20, 2006. **REUTERS/JIM BOURG**

COVER PHOTO: Employees work along a production line in Suzhou Etron Electronics Co. Ltd's factory in Suzhou, Jiangsu province in this June 8, 2010 file photo. **REUTERS/ALY SONG/FILES**

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