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Christopher K. Johnson

Senior Adviser and Freeman Chair in China Studies

The Center for Strategic and International Studies

Interpreting the Transition: Three Misconceptions and their Implications

At the close of the First Plenum of the 18th Central Committee on November 15, 2012, the Chinese Communist Party (CCP) unveiled its new, slimmed-down Politburo Standing Committee (PBSC) to the world. With the new leadership lineup no longer a mystery, the attention of party insiders in Beijing and foreign China watchers turned quickly to dissecting the results of the 18th Party Congress in an effort to interpret their broader meaning. Among such analyses, three common misperceptions about the transition process and its outcome have substantial ramifications for understanding the political and policy implications as the new leadership team begins the necessary work of consolidating power and framing the outlines of its governing approach.

1) The “Return” of Jiang Zemin. With at least five—and arguably six—of the new PBSC members having political ties to former President Jiang Zemin, many observers were stunned by the seemingly strong influence in shaping the new leadership lineup wielded by a leader who notionally had been formally retired for nearly a decade. This in turn has spawned ominous warnings about a dangerous return to elder-mediated politics¹ (老人政治) as the outcome of the Party Congress clearly called into question entrenched assumptions about the incremental institutionalization of the Chinese political system. The new PBSC configuration is a poignant reminder of one of the eternal verities of Chinese politics—personalities matter. Of course, this is a truism in almost any political system. Still, the importance of personal relationships in Chinese culture—and of personal networks in Chinese politics—means that in China, more so than in other polities, the rule of thumb is people first, then policy. China’s authoritarian system, despite some modest tweaks to make the process appear more regularized and predictable, remains a largely informal and highly-personalized affair.

This reality has been easy to lose sight of under the fairly monochrome management of the outgoing leadership cohort and their obsessively consensus-driven style of decisionmaking under

¹ Jeremy Page, “Chinese Party Elders Step Back In,” *The Wall Street Journal*, September 6, 2012, at <http://online.wsj.com/article/SB10000872396390444301704577631932672679296.html>

the stewardship of President Hu Jintao. Their approach intentionally masked Jiang's continuing behind-the-scenes role. Still, there was ample evidence throughout Hu's tenure that Jiang never really left. Jiang remained number two in the official party hierarchy after stepping down as party chief in 2002. More importantly, he retained that status after retiring from his last official post as chairman of the Central Military Commission in 2004. Interpreted by many analysts as merely an honorific recognition of his status as a retired CCP general secretary, in hindsight, it is clear this status instead reflected his continuing influence as the "core" of the third generation Chinese leadership and thus its representative in elite decisionmaking.

Moreover, Jiang's guiding hand was especially apparent in shaping the senior personnel lineups at both the 16th and 17th Party Congresses in 2002 and 2007, respectively. In conjunction with his departure as sitting party chief, Jiang expanded the size of the PBSC at the 16th Party Congress from the previous seven seats to nine to accommodate additional members of his leadership circle.² But the true measure of his victory at that conclave was the simultaneous stacking of the full Politburo with his associates. Jiang further consolidated his position at the 17th Party Congress by placing Xi Jinping in the pole position to replace Hu and by tightening his grip on several of the Party's key levers of power. Putting his supporters firmly in control of the CCP's key investigative organs at the 2007 Congress, for example, sent an unmistakable signal that he had fully recovered following the purge of then Shanghai party chief Chen Liangyu—a clear attack on Jiang's powerbase—only a year before.³

Jiang repeated this performance in the runup to the 18th Party Congress. His early support for former Politburo member Bo Xilai risked putting him on his back foot in the succession sweepstakes as Bo became engulfed in scandal and accusations that his family members were involved in the death of a foreign national. But Jiang seized on the equally lurid scandal surrounding the death of the son of former CCP General Office Director Ling Jihua in a car crash—while driving a Ferrari, no less—to come roaring back. He reportedly criticized Ling for seeking to cover-up the crash and even held back a key investigative report for several months to maximize its political impact.⁴ Jiang's adroit manipulation of the incident was a political masterstroke on the eve of the leadership handover, in what had become his signature move ahead of the last several Party Congresses.

Against this backdrop, Jiang's influence over the personnel outcomes at the 18th Party Congress was no surprise. In fact, the rise of several of the proteges Jiang placed on the full Politburo at the 16th Party Congress to the PBSC this time around speaks volumes about the farsightedness of his gameplan in arranging the Politburo deck chairs in 2002. His heavy hand in crafting the

² Joseph Fewsmith, "The Sixteenth National Party Congress: The Succession that didn't Happen," *The China Quarterly*, No. 173 (March 2003): 3-16

³ Joseph Fewsmith, "The 17th Party Congress: Informal Politics and Formal Institutions," *China Leadership Monitor*, No. 23 (Winter 2008)

⁴ "How Crash Cover-Up Threatens Career of Hu's Top Aide," *South China Morning Post*, September 3, 2012, at <http://www.scmp.com/news/china/article/1028489/how-crash-cover-threatens-career-hus-top-aide>

new lineup should therefore be viewed as what passes for “normal” in a process governed by very few formal rules. As such, it would be misleading to conclude that Jiang’s role signified a fundamental change to the CCP’s way of doing business, or that the process had somehow become more unwieldy or intrinsically unstable as a result.

2) Xi Constrained. A second—and interrelated—misreading of the Party Congress outcome is the notion that Xi Jinping likely will be as constrained when it comes to setting his own agenda as Hu Jintao was when the latter took power at the last transition a decade ago. This is because, so the thinking goes, Xi is surrounded by PBSC colleagues he did not choose. He also is hemmed in by not just one, but two retired general secretaries—Hu and Jiang—whose interests must be accommodated. Both of these statements are true as matters of fact, but they probably lack broader explanatory power.

In fact, if there is any lesson we should take from the still unfolding transition, it is that past precedent may not be the best predictor of future developments or performance. Whatever Xi’s differences with his mostly Jiang-backed PBSC colleagues, there presumably is far less policy daylight among them than had more Hu allies been appointed to the Party’s top ranks. The key personnel developments at the Party Congress—trimming two seats from the PBSC, downgrading the party’s security czar, and making Xi party boss and commander-in-chief in one fell swoop—certainly appear consistent with such a seeming desire to fully empower Xi. The meaningfulness of these changes is amplified still more if viewed through the prism of personal political power instead of misguided notions of institutionalization.

Although it is unclear whether Xi will face the same kind of substantial meddling from his retired predecessors that seemingly plagued Hu’s tenure, early indications would suggest otherwise. The CCP’s late January announcement that, at his own request, Jiang Zemin would now be grouped with other retired leaders in the Party’s official pecking order⁵ sends an important signal about his willingness to give Xi sufficient breathing room. Likewise, Hu Jintao may lack the inclination—or, more importantly, sufficient authority—to intervene in meaningful ways. Having never been designated the official “core” of his generation’s leadership cohort⁶, Hu probably lacks adequate justification to weigh in from behind the scenes. Moreover, even though several of his proteges were elected to the full Politburo at the 18th Party Congress, Hu’s lack of a working majority on the PBSC limits his influence. So, while Xi must be appropriately deferential to both Hu and Jiang and mindful of their interests, he probably will be less hamstrung by such considerations than Hu.

This is not to suggest that Xi is entirely unfettered, or that the transition process and its results are, or will be, free from consequences, intended or otherwise. By promoting the oldest members

⁵ Yang Jingjie, “Jiang Zemin Requested that he be Moved Down in Official Ranking,” *Global Times*, January 24, 2013, at <http://www.globaltimes.cn/content/757887.shtml>

⁶ Alice Miller, “The New Party Politburo Leadership,” *China Leadership Monitor*, No. 40, January 14, 2013, at <http://www.hoover.org/publications/china-leadership-monitor/article/137951>

of the previous full Politburo (save the one female contender, Liu Yandong) to the new Standing Committee, for example, five of the seven current members will again face retirement at the next five-yearly Congress in 2017 if the leadership maintains the current informal age restrictions governing service on the Politburo.⁷ Based on the natural cycling of the Chinese political process, this would mean that Xi and his colleagues, after roughly a year of settling in, would have at most two to three years to make progress before the political horse trading will begin again in earnest. Still, the implications of this type of constraint are very different than those associated with activist elders or a too-finely-balanced PBSC. Xi will have to decide, and probably fairly early on in his tenure, to either abide by the traditional timelines described above, or, if he concludes he has sufficient room, to attempt a political breakout of some sort. The point is that it will be Xi's own calculus, and not exogenous factors, that fundamentally shape the path he ultimately chooses.

3) The “Conservative” New PBSC Lineup. The suggestion that the new PBSC is innately conservative—and thus allergic to any type of reform⁸—also seems overstated, if not wrongheaded. Among the common criticisms, new PBSC member Zhang Dejiang is derided for being educated in North Korea⁹ and accused of being merely a shill for the state sector of the economy, while his colleague Zhang Gaoli is described as “part of the problem” for presiding over a massive fixed investment bubble as party chief of Tianjin municipality.¹⁰ Even Yu Zhengsheng has been mysteriously branded as an orthodox figure. Such critiques ignore these leaders' broader experience—stints as party chief in Zhejiang and Guangdong Provinces in the case of Zhang Dejiang and in the Shenzhen Special Economic Zone for Zhang Gaoli—in some of the country's most dynamic regions known for practicing economic experimentation. Similarly, Yu's strong connections to the family of Deng Xiaoping¹¹ alone would seem to call into question characterizing him as an antireform hack.

Of course, the new lineup is undoubtedly less reformist in orientation than if it included the likes of former Guangdong party chief Wang Yang and former CCP Organization Department Director Li Yuanchao, who both were relegated to seats on the full Politburo. But, as part of their political dealmaking, senior leaders appear to have deliberately traded wider representation of the broad spectrum of views within the Party's ranks for greater unity within the PBSC. If Xi and

⁷ Joseph Fewsmith, “The 18th Party Congress: Testing the Limits of Institutionalization,” *China Leadership Monitor*, No. 40, January 14, 2013, at <http://www.hoover.org/publications/china-leadership-monitor/article/137941>

⁸ See, for example, Naomi Rovnick, “The Triumph of Conservative Hardliners in China's Power Transition,” *The Atlantic*, November 15, 2012, at <http://www.theatlantic.com/international/archive/2012/11/the-triumph-of-conservative-hardliners-in-chinas-power-transition/265273/>

⁹ Peter Ford, “Who are China's next leaders? – Zhang Dejiang,” *Christian Science Monitor*, November 15, 2012, at <http://www.csmonitor.com/World/Asia-Pacific/2012/1114/Who-are-China-s-next-leaders/Zhang-Dejiang>

¹⁰ Tom Holland, “Zhang Gaoli's Tianjin economic model promises disaster for China,” *South China Morning Post*, November 6, 2012, at <http://www.scmp.com/business/article/1075766/zhang-gaolis-tianjin-economic-model-promises-disaster-china>

¹¹ “Red Nobility: Yu Zhengsheng navigates China's Factional Politics,” *Want China Times*, June 22, 2012, at <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20120622000110&cid=1601>

Li Keqiang are able to agree on the basic contours of a revitalized reform program, the Zhangs and Yu, as well as remaining PBSC members Liu Yunshan and Wang Qishan, are unlikely to stand in the way.¹²

Implications for Domestic Policy

During his first public remarks as the newly-minted CCP General Secretary, Xi Jinping won plaudits—from both domestic and foreign audiences—for speaking candidly about the many challenges facing the CCP, and for deliberately avoiding the kind of ideologically-laced rhetoric that has featured so prominently in the speeches of his predecessors. Many observers have suggested this approach underscores Xi's innate confidence as a leader whose "princeling" status as the child of one of the regime's founding fathers imbues him with a born-to-rule leadership style. With the new leadership lineup no longer a mystery, the new favorite parlor game in Beijing and among foreign China watchers is to speculate on whether Xi will embrace reform to tackle the laundry list of mounting problems that are steadily eroding the CCP's legitimacy with the Chinese populace.

Xi and the rest of his so-called "fifth generation" leadership cohort have taken the helm as China swiftly approaches another critical inflection point in its political, social, and economic development path. The fifth generation's formative experiences with the chaos of the Cultural Revolution and its members' often unremarkable rise as good stewards deeply invested in the current system have led some analysts to prematurely dismiss them as merely another caretaker leadership. But the risk of assuming absolute policy continuity during the fifth generation's presumed decade-long tenure is actually far greater than that of contemplating the prospect of some sort of discontinuous change. The reality is that China's rapid rise on the world stage and the stresses of more than three decades of "reform and opening up" probably leave the new lineup less room to simply muddle through. Whether they choose to reform or to retrench, the implications for China, the United States, and the rest of the world will be profound.

In terms of broad domestic priorities, the new leadership must go beyond merely acknowledging the need for a new wave of economic reform and take concrete steps to implement it. Li Keqiang signaled his intent as the future steward of China's economy last February by personally endorsing a World Bank study, the China 2030 report¹³, highlighting the need for important changes such as taming sprawling state firms and further liberalization in the financial sector. The CCP's fundamental domestic strategic benchmark—its prediction that China will become a "moderately well-off society" (小康社会) by 2020—was revalidated at the 18th Party

¹² Barry Naughton, "Signaling Change: New Leaders begin the Search for Economic Reform, China Leadership Monitor, No. 40, January 14, 2013, at <http://www.hoover.org/publications/china-leadership-monitor/article/137931>

¹³ "China 2030: Building a Modern, Harmonious, and Creative High-Income Society," The World Bank and the Development Research Center of the State Council, People's Republic of China, February 27, 2012, at http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/02/28/000356161_20120228001303/Rendered/PDF/671790WP0P127500China020300complete.pdf

Congress¹⁴ and will expire late in the new leaders' tenure. They should take full advantage of the press of its approach, as well as their mandate to craft the successor policy guideline, to press ahead with essential change. This probably can best be facilitated by a two-step process of several years of economic consolidation, during which the leadership tackles the distortions to the economy wrought by its policy response to the global financial crisis and the unfinished business of the current Five-Year Plan, followed by a new wave of economic experimentation that sets the country on a firm course toward advancing China to the next stage of economic development.

Xi Jinping sent an important signal regarding the leadership's prevailing mindset after its first few months in office with his repeated references to "crossing the river by feeling the stones" in remarks delivered on the margins of a Politburo "study session" held on New Year's Eve to discuss deepening China's reform in the year ahead.¹⁵ Xi's careful comments underscore several realities. They suggest a lack of a solid consensus within the leadership over exactly how to tackle the many challenges they are facing. They also are an implicit acknowledgement that Xi knows he needs more time to continue consolidating power and to formulate whatever reform program the leadership is likely to roll out in the coming months (or even years).

Still, both Xi¹⁶ and Li Keqiang¹⁷ in their early speeches seem to be acknowledging that the approach under the administration of Hu Jintao and outgoing Premier Wen Jiabao, in which the substantial structural impediments to more fundamental reform were left largely unaddressed, cannot provide lasting solutions to the current challenges. There seems, in other words, a growing recognition that the principal hindrance to reform is not a revanchist band of neoleftists akin to those who supported the social leveling battle cry of disgraced Politburo member Bo Xilai. Instead, it is the inertia generated by powerful vested interests that distort the outcome of the existing reforms to their benefit and block more sweeping policies that would threaten their privileged position.

The rekindled reform debate has tended to focus on two such interests in particular—local officials and state-owned enterprises (SOEs)—and the seemingly nefarious nexus between them. There is a broad consensus that local officialdom has contributed markedly to worsening social

¹⁴ "Full Text of Hu Jintao's report at the 18th Party Congress," Xinhua, November 17, 2012, at http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259.htm

¹⁵ "Greater political courage and wisdom to deepen reform; Moving toward reform and opening up under the guidelines of the 18th Party Congress 以更大的政治勇气和智慧深化改革 朝着十八大指引的改革开放方向前进," People's Daily Online, January 2, 2013, at http://paper.people.com.cn/rmrb/html/2013-01/02/nw.D110000renmrb_20130102_3-01.htm?utm

¹⁶ Hu Jian, "Xi Jinping tours Guangdong, a veritable record: Write the "China dream" by advancing reform and opening 习近平考察广东纪实：在改革开放前沿起笔"中国梦"." *Nanfang Daily*, December 13, 2012, at <http://news.sohu.com/20121213/n360279611.shtml>

¹⁷ "Reform is like a boat beating against the current; if you don't move forward you will slip backward 改革如逆水行舟不进则退," November 23, 2012, Xinhua News Agency, at http://whb.news365.com.cn/yw/201211/t20121123_796468.html.

tensions through the maintenance of a fiscal system that, in the wake of tax reforms, incentivizes them to live off land seizures and corrupt relationships with land developers and speculators. This practice was further entrenched in the wake of the government's four trillion yuan stimulus program in response to the 2008-09 global financial crisis, whereby local governments and the SOEs collaborated in taking massive capital injections from the state banks and directing them into infrastructure and real estate projects of often questionable necessity. Of course, one cannot then expect the local governments or the SOEs to willingly accept reforms that might challenge their current role as the channel of choice for the government to pump money into the economy. Instead, the Party will have to dramatically strengthen central control over the reform agenda and its implementation to ensure that it is not high jacked by these vested interests.

Along these lines, the new leadership seems to understand that it must address the center's weak control over the provinces. Deceased paramount leader Deng Xiaoping's decentralization policies were a necessary evil to promote experimentation and to overcome resistance from his orthodox rivals then in command of much of the central bureaucracy. But the pendulum has swung too far, as evidenced by the revelations surrounding the fall of Bo Xilai. Bo's transgressions may have represented an extreme case, but the collusion between provincial party bosses and the security chiefs and local interests that serve and support them certainly is not unique. These relationships allow regional party barons to evade—and in some cases to defy—central directives, hamstringing Beijing's ability to ensure smooth policy implementation. Add to this the tremendous latitude granted to provincial authorities in executing Beijing's mandate to safeguard social stability, and the lack of accountability can have profound consequences. Xi and his cohort are well-versed in these issues, having each spent substantial time during their careers working in varied provincial administrations. Using that experience to craft approaches that reassert the center's dominance will be critical to ensuring that any new policy directions they chart out will be meaningfully pursued.

In what is likely to pass for political reform in the first five years of the Xi-Li administration, there is a parallel discussion within party circles concerning the need to advance the rule of law. Here again the Bo scandal seems central to the argument. The CCP has expelled Bo from its ranks and is moving toward orchestrating his final legal disposition through a formal trial that, just like those of Bo's wife and his erstwhile security chief, will undoubtedly be touted by the Party as underscoring that all people are equal before the law. But some opinion makers in the Party elite clearly aren't buying it. Their frustration is perhaps best reflected in the series of editorials on the case published ahead of the Party Congress by Hu Shuli of the reformist-leaning financial news outlet Caixin.¹⁸ In essence, they argue that, in its management of the Bo affair, the leadership has chosen the path of expediency rooted in a desire to avoid soul-searching that might threaten its efforts to rebuild the public facade of unity tarnished after a year where tales of intraparty squabbles repeatedly spilled out into the public space. As such, the CCP is

¹⁸ See, for example, Hu Shuli, "The Dark Heart of the Bo Xilai Case," Caixin, October 10, 2012, at <http://english.caixin.com/2012-10-10/100445554.html>

squandering an opportunity to show that the rule of law in China “must be more than just a slogan.”

Xi has touched on both of these issues in the way he is orchestrating the rollout of the CCP’s still unfolding anticorruption campaign. In his remarks during the late January Second Plenum of the party’s anticorruption watchdog, the Central Discipline Inspection Commission (CDIC), he called for strict adherence to party discipline and absolute compliance with “the decisions of the Central Committee.”¹⁹ Underscoring the message to errant local officials, a sternly worded commentary in the official media noted that some officials “pretend to be in agreement with the decisions of the Central Committee but are actually at odds.” Directly referencing the Bo Xilai affair, it continued that still others “say whatever they like to say and do whatever they want to do,” adding categorically that the CCP will never “tolerate any ‘private clubs’ that go their own way.”²⁰ In the same speech before the CDIC, Xi alluded to the rule of law by suggesting that the power of Party barons should be “restricted by a cage of regulations.” Signaling that the crackdown may be moving into a new phase, Xi also noted that guidelines calling for thrift and straightforward policy approaches adopted at a Politburo meeting soon after the new leadership took office are just “the first step” in the Party’s efforts to improve its performance and reputation with the Chinese public.

Implications for Foreign Policy

With such a full plate at home, Xi and the new leadership team will struggle to find the wherewithal to also manage foreign policy. But, once Xi collects the last of his formal titles, the presidency, in the spring, he will not have a choice. China’s relationships with many of its regional neighbors remain strained amid continuing controversies over territorial disputes. In particular, the maritime disputes on China’s periphery, already a source of tensions between Beijing and its neighbors, may become further aggravated under the new leadership.

In the East China Sea, Chinese marine and fishery surveillance vessels and aircraft are challenging Japan’s administrative control over disputed islets (called Senkaku by Japan and Diaoyu by China) and their adjacent waters, increasing the potential for a clash that could escalate, and in some scenarios, draw in the United States. Friction over territorial disputes in the South China Sea may also intensify, especially if Beijing seeks to interfere with oil and gas exploration and development activities conducted by rival claimants Vietnam and the Philippines. Several members of ASEAN, along with the US, continue to push for a Code of Conduct for the South China Sea that holds promise for reducing the risk of conflict, but Beijing

¹⁹ “Xi Jinping vows ‘power within cage of regulations,’” January 22, 2013, Xinhua News Agency, at http://news.xinhuanet.com/english/china/2013-01/22/c_132120363.htm

²⁰ Wang Xiaopeng, “Commentary: CCP will not tolerate defiance of discipline,” January 25, 2013, Xinhua News Agency at http://news.xinhuanet.com/english/china/2013-01/25/c_132125878.htm

is resisting, preferring instead to manage the disputes bilaterally.²¹ Beijing's emerging gameplan of exploiting these quarrels to alter the status quo and to create new facts on the ground is an acute challenge for the United States and its allies in the region. Indications that Xi fully endorses this strategy—such as his sweeping statement in a late January inaugural foreign policy address to the Politburo that “No foreign country should ever presume that we will bargain over our core national interests”²²—suggest the intensity of this challenge is unlikely to diminish under his rule.

Xi's tough comments speak to the broader issue of how the new leadership team intends to manage China's “assertiveness debate,” or the dispute over how aggressively China should project its resurgent power and influence on the global stage to defend its “core interests.” Hu Jintao struggled to stay on top of the debate during his tenure, having to remind the CCP elite on several occasions that the regime continues to abide by deceased paramount leader Deng Xiaoping's so-called “bide and hide” (韬光养晦) dictum, under which China adopts a low-key foreign policy approach and never takes the lead. The regime also artificially suppressed the debate as part of its campaign to maintain stability and avoid controversy through the succession period. Now that the transition is nearly complete, the debate is likely—if it hasn't already—to come quickly back to the fore, especially amid continuing uncertainties in the global economy and a perception among many regime constituencies that the United States is more aggressively seeking to frustrate China's rise through its “pivot” to Asia.

Implications for the United States

Xi also will have to quickly define his approach to managing China's most important bilateral relationship, that with the United States. The rare convergence of a U.S. presidential election cycle and China's a once-in-a-decade leadership transition left both leaderships struggling to sustain momentum in the face of powerful forces drawing their respective gazes inward. One consequence of the ensuing drift in the bilateral relationship was the emergence of growing concerns about “strategic distrust” between Beijing and Washington, or the deepening suspicion of each country's long-term intentions toward the other.

Xi is likely to confront a dilemma between following his own inclinations and managing the emerging sentiments of the Chinese elite and the broader Chinese public. Xi has far more familiarity, and therefore comfort, with the United States than Hu Jintao did when taking on the mantle of steward of the bilateral relationship, and there is every indication that he genuinely supports healthy bilateral ties with America. But it is equally clear that Chinese suspicions of U.S. intentions, especially in the aftermath of the U.S. strategic rebalancing to Asia, are

²¹ Christopher K. Johnson and Bonnie S. Glaser, “Critical Questions for 2013: Regional Issues,” January 25, 2013, CSIS.org, at <http://csis.org/publication/critical-questions-2013-regional-issues>

²² Chris Buckley, “China leader affirms policy on islands,” January 29, 2013, *The New York Times*, at http://www.nytimes.com/2013/01/30/world/asia/incoming-chinese-leader-will-not-to-bargain-on-disputed-territory.html?_r=0

hardening. Successfully walking the fine line between instinct and political necessity may well define whether Xi can achieve his own stated goal of “building a new type of great power relationship” with Washington.

In the economic and trade relationship, Xi already has signaled his support for the notion that the strong economic interdependence between the United States and China offers the best hope for finding, in the words of Secretary of State Hillary Clinton, “a new answer to the old question of what happens when an established power and a rising power meet.” During his visit Washington last February, Xi stated on several occasions that U.S.-China economic and trade ties should serve as the “ballast” for and “propeller” of the overall bilateral relationship. Instead, however, the economic relationship appears to be emerging as a new trouble spot. Recent squabbles such as a regulatory dispute over auditing procedures for Chinese companies listed in the United States, the escalating debate in Washington over Chinese investment here, and growing frustration in the U.S. business community with Chinese economic espionage are just a few of the economic challenges that risk souring the bilateral atmosphere as the new leadership team settles in.

The challenges in the security dimension of the relationship are no less vexing. A major task for the United States this year is how to respond to China’s increasing predilection to bully its neighbors through the use of white-hulled maritime vessels rather than naval warships, or via the employment of crafty economic coercion tactics. In addition to maritime disputes, North Korean provocations, such as a third nuclear test or an attack on South Korea, could prove a near-term test of the outlines of bilateral cooperation and of Chinese foreign policy under the new leadership. America’s continuing pivot to Asia, which China fears is an umbrella for a new US-led coalition of nations to contain Chinese influence, will undoubtedly remain an irritant complicating U.S.-China ties.

Xi and his colleagues are more cosmopolitan—and more confident—than their predecessors. As such, they probably are less likely to defer to the United States on areas of discord, and they can be expected to negotiate stubbornly in all of these areas of bilateral friction. Fixing these problems won’t be easy, but it is an essential task for the new Chinese leadership and for the second Obama administration going into 2013. It will take bold leadership from senior officials on both sides to ensure that, again in the words of Secretary Clinton, “there is reason to hope that over the coming years, we can in fact chart a path that avoids conflict and builds on the areas where our interests align.”