

# POLITICO

# China Watcher

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By **STUART LAU**

with **PHELIM KINE**

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**WELCOME TO CHINA WATCHER!** This is your Tuesday host **Stuart Lau**, reporting from Lithuania where NATO leaders are arriving this hour for a summit alongside four special guests from the West's strongest allies in the Asia Pacific. As much as Ukraine dominates the limelight in the capital city Vilnius, located just 20 miles from the border with Belarus, NATO's outgoing (or, rather, ongoing) Secretary-General **Jens Stoltenberg** made it a clear strategy to keep a sustained long-term focus on China. One *monsieur* doesn't like that though, and we'll have more below. **Phelim Kine** will be with you on Thursday with all the U.S.-China updates. And for more NATO summit news, sign up for our [Global Insider newsletter](#) — I'll be penning tomorrow's edition.

**Before we go to NATO:** Phelim will walk us through what happened when U.S. Treasury Secretary **Janet Yellen** visited China last week.

## YELLEN VISITS BEIJING

**YELLEN CLAIMS 'STEP FORWARD' IN BILATERAL TIES:** The Treasury Secretary claimed her meetings in Beijing last week helped move the frosty U.S.-China relationship toward greater stability. "I believe that my bilateral meetings — which totaled about 10 hours over two days — served as a step forward in our effort to put the U.S.-China relationship on surer footing," Yellen said [in a Sunday morning press briefing in Beijing](#).

**China's lineup:** Beijing signaled its eagerness to engage by putting forward some of its most senior officials — including Premier **Li Qiang**, Vice Premier **He Lifeng**, Finance Minister **Liu Kun**, and putative governor of the People's Bank of China **Pan Gongsheng** — for one-on-one meetings with Yellen.

Those talks came just two weeks after Secretary of State **Antony Blinken's trip** and days ahead of [an expected visit to Beijing](#) by Biden's Presidential Envoy for Climate, **John Kerry**. That suggests that both Beijing and Washington are testing the value of a revival in high level bilateral contacts in resetting a relationship roiled by ongoing trade tensions, the discovery of a Chinese spy balloon over the continental U.S. in February and Beijing's saber-rattling toward Taiwan.

**Yellen threaded her expressions of concern** about issues including China's "unfair economic practices" and "coercive actions against American firms" with a vision of economic coexistence. "President Biden and I do not see the relationship between the U.S. and China through the frame of great power conflict — we believe that the world is big enough for both of our countries to thrive," she said.

**Read the fine print from the other side:** Chinese government readouts of Yellen's meetings reflected some skepticism about that message. The U.S. should "adopt a rational and pragmatic attitude" toward its ties with China, Premier Li told Yellen [during their meeting on Friday](#). Beijing spiked that rhetoric with a demand that the Biden administration address irritants including tariffs on Chinese imports and export restrictions on high technology items. "The U.S. side is required to

take practical actions to respond to China's major concerns about U.S. economic sanctions and suppression," the spokesperson said.

But Beijing wants dialogue to continue. Yellen's meetings resulted in an agreement "to follow up and maintain high-level exchanges and communication at all levels in the economic field," a Chinese Finance Ministry spokesperson said in [a statement on Monday](#).

Yellen's focus on bilateral macroeconomic cooperation helped prevent tricky issues from dominating her meetings. She made the case "for the world's two largest economies to jointly focus on growth, which is key to China," said **Harry Broadman**, U.S. Assistant Trade Representative in the George H.W. Bush administration. Everyone knows there are divisions, but the point of these meetings was to "give some stability to the relationship despite those differences," Broadman said.

## **NATO: THE INS AND OUTS**

**HELLO AGAIN:** The leaders of Japan, South Korea, Australia and New Zealand are in the Lithuanian capital this morning as guests at the NATO leaders' summit. This is the second outing for the format known in the NATO bubble as AP4, after the Asia-Pacific quartet showed up at the Madrid summit last year. For NATO, the message is that even if it's currently preoccupied with Russia, it wants to make sure it's not forgetting the looming challenges facing the Indo-Pacific.

**Talking China:** A senior German official told POLITICO's **Hans von der Burchard** that NATO leaders will "exchange views on how to deal with China" in a session tomorrow that also includes Australian PM **Anthony Albanese**, Japanese PM **Fumio Kishida**, South Korea's President **Yoon Suk Yeol** and New Zealand PM **Chris Hipkins**. The meeting will also be joined by **Ursula von der Leyen** and **Charles Michel**, presidents of the European Commission and European Council respectively.

**Don't expect Macron to give a marathon speech:** Before the NATO summit, the French president made it clear that France is no fan of NATO's idea of setting up a new office in Tokyo. His reasoning: NATO is all about the N and the A. "We are not in favor as a matter of principle," an Elysée Palace official told POLITICO's **Laura Kayali** on Friday. "As far as the office is concerned, the Japanese authorities themselves have told us that they are not extremely attached to it." Here's [her report](#).

**Disinformation?** A Japanese official told POLITICO after the report that the French interpretation of Tokyo's attitude was "inaccurate," saying that the Kishida government had been "very cooperative" with NATO, and the prime minister had "always reminded European leaders that the Indo-Pacific and Euro-Atlantic are interrelated spheres." A NATO official, meanwhile, criticized the French position as hypocritical, as the bloc used to run a similar [liaison office in Central Asia](#) "and no Ally used the 'North Atlantic' argument against it."

**CHINA'S OWN PLAN:** In the same week of the NATO summit, Beijing made sure that the alliance's rivals are well taken care of. On Monday, Chinese President **Xi Jinping** received **Valentina Matviyenko**, head of the upper chamber of the Russian parliament and a close ally of President **Vladimir Putin**, before a visit by Belarus' First Deputy Prime Minister **Nikolai Snopkov** today.

**Making the state media splash:** Nope, it's not Ukraine. Well, not directly. Xi's meeting with Matviyenko — who is sanctioned by the U.S., EU and the rest of the G7 — was featured prominently on Xinhua on Monday. According to Xi, Moscow and Beijing "should well implement my important consensus with President Putin" to beef up cooperation between the two national legislative bodies "to guide global governance and reform toward the right direction."

**Russia has nothing but thanks:** Matviyenko, who [according to BBC](#) is the most senior Russian stateswoman since Tsarist Empress Catherine the Great, regards Xi as "very wise, confident, educated and independent," according to Russian news agency [TASS](#). "We stand together for equal cooperation. We come out together against interference in internal affairs," she added.

**Wondering what Beijing thinks of the NATO summit?** Here's the hot take from the Chinese state-run [Global Times](#), which cites "experts" in its report: "U.S., U.K. to coordinate on 'further dominating NATO' ahead of summit; turning 'preventing Ukraine crisis from ending' into bloc's consensus."

### THREE MINUTES WITH ...

**MARGIRIS ABUKEVIČIUS**, Lithuania's Indo-Pacific Defense Representative, tells us more about the Asia strategy unveiled by the Vilnius government just a few days before the NATO summit. Formerly Deputy Defense Minister of the Baltic country, Abukevičius is currently based in Tokyo.

**BACKGROUND:** The new government strategy on the Indo-Pacific region published on Wednesday last week reinforces the decision to build strong economic links with Taiwan, in defiance of intense pressure from China to change course. Beijing's coercion has prompted the European Union to come to Lithuania's defense, first by launching a suit against Beijing at the World Trade Organization, then by coming up with an EU-wide anti-coercion instrument. China's aggressive moves — including by unilaterally downgrading the status of Lithuania's embassy to what it calls the "office of the chargé d'affaires" — made Lithuanian businesses keener to seek alternatives in Asia.

*What does this Indo-Pacific strategy mean for Lithuania and the EU in general?*

Abukevičius: The strategy is a long-term political commitment. Today Lithuania's and Europe's security is directly threatened by Russia, but it is also directly and indirectly affected by what is happening in the Indo-Pacific. The consequences will be seismic if we will not deter China, therefore the like-minded countries should join the efforts.

*Being on the receiving end of Chinese coercion, what's Lithuania's message to other countries on handling ties with the world's second biggest economy?*

Abukevičius: The recipe is simple — the less dependent you are, the less vulnerable and constrained you are. Europe has learned that lesson with Russia the hard way. Therefore we should start decoupling from China, especially in the areas which are important to national security. The sooner we will start, the better prepared for any contingency we will be.

*How should NATO play a role in building ties with the Indo-Pacific?*

Abukevičius: NATO is a transatlantic alliance, but the threats we are facing go beyond the transatlantic area. Therefore, cooperation with like-minded countries in Indo-Pacific is in our mutual interest. In addition to bilateral or different multilateral formats blooming in the Indo-Pacific, NATO can offer its collective experience and cooperation mechanisms to build interoperability and strengthen mutual resilience.

### TRANSLATING WASHINGTON

**BIDEN: XI SEEKS 'LEADING POWER' STATUS:** China's paramount leader **Xi Jinping** wants China to supplant the U.S. as the global leading power, President **Joe Biden** said on Sunday. "I'm confident he wants to have the largest economy in the world and have the largest military capacity in the world," Biden told CNN's **Fareed Zakaria** [in an interview](#). But Xi's ambitions don't extend to a desire for "war, conflict, expansion of territory," Biden said.

**DESANTIS THREATENS CHINA'S U.S. TRADE STATUS:** Florida Governor **Ron DeSantis** staked a claim to China hawk status in his bid to be the GOP presidential nominee by pledging to end Permanent Normal Trade Relations with Beijing if elected president. "I favor doing that — I think we probably need Congress but I would take executive action as appropriate to be able to move us in that direction," DeSantis [told Fox News on Sunday](#). Sens. **Tom Cotton** (R-Ark.), **Rick Scott** (R-Fla.), **Ted Budd** (R-N.C.) and **J.D. Vance** (R-Ohio) introduced a bill in January that would do precisely that in a bid "to protect American jobs and hold the Chinese Communist Party accountable for their forced labor camps and egregious human rights violations," Cotton [said in a statement](#).

The decision to award China with PNTR was made by President **George W. Bush** with the support of both Houses of Congress in 2001 as part of its World Trade Organization admission process. Prior to that, China's maintenance of its trade relationship with the U.S. required an annual presidential renewal that became a flashpoint of congressional debate over China's human rights record.

**AUSTIN SLAMS BEIJING'S 'COERCIVE' NAVAL TACTICS:** Defense Secretary **Lloyd Austin** accused Beijing of "coercive" behavior against Philippine naval vessels in the South China Sea. Austin expressed concern about "risky operational behavior directed against Philippine vessels operating safely and lawfully in the South China Sea, including around Second Thomas Shoal," Austin said in a call with Philippine Defense Secretary **Gilberto Teodoro Jr.** last week. Austin's comments "distorted and discredited China's legitimate and lawful maritime law enforcement activities," Chinese Foreign Ministry spokesperson **Wang Wenbin** said on Friday.

**KERRY BEIJING-BOUND WITHIN DAYS:** Biden's Presidential Envoy for Climate, **John Kerry**, is the latest senior administration official — following Blinken and Yellen — to have Beijing travel plans. Kerry will meet with his counterpart **Xie Zhenhua** and other senior Chinese officials during the week of July 16, per the New York Times. Kerry's agenda will include pressing his hosts to implement a joint deal with the U.S. hinged to methane emission cuts, slowing deforestation and discontinuing China's reliance on coal.

## OTHER HEADLINES THIS WEEK

**Al-Jazeera:** China, Solomon Islands elevate 'strategic' ties

**Bloomberg:** Millions of Chinese staying home shackle Southeast Asian growth

**CNN:** Controversial Chinese scientist proposes new gene editing research

**Financial Times:** China on brink of consumer deflation

**Sixth Tone:** Tech giants race to incorporate AI in China's offices

**South China Morning Post:** China's foreign relations law signals new red lines

**MANY THANKS:** To editor **Tim Ross**, reporters **Hans von der Burchard**, **Laura Kayali** and producer **Giulia Poloni**.

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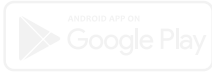
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