The US-China Strategic and Economic Dialogue (S&ED) is a high-level dialogue mechanism between US and China. The second meeting convened in Beijing in May 2010. Each side came to the dialogue with its own wish list. The second S&ED produced 26 agreements, but no significant breakthrough on major controversial issues such as trade, Taiwan or North Korea was achieved. However, this does not undermine the dialogue as a key platform for regulating one of the world’s most important bilateral relationships.

THE SECOND ROUND of US-China Strategic and Economic Dialogue (S&ED) convened in Beijing from May 24 to 25, 2010. Secretary of State Hillary Clinton and Secretary of the Treasury Timothy Geithner led the largest ever US delegation of nearly 200 cabinet and sub-cabinet officials to the meeting. The US delegation covered most

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of the departments of the US government and included, notably, top officials from the Department of Defense and the US Pacific Command. This represented the highest level of military contact between the two sides after the US arms sale to Taiwan in early 2010. On the Chinese side, heads of ministries, bureaus and commissions participated in the Dialogue. Secretary Clinton and Secretary Geithner were special representatives of President Barack Obama. They each co-chaired the strategic and economic tracks of the Dialogue with their respective Chinese counterparts State Councilor Dai Bingguo and Vice Premier Wang Qishan.

The second Dialogue was given top-level attention and a positive tone prevailed before and during the meeting. It showed signs of a meeting between two equals. Candid and in-depth discussions were carried out on a wide range of issues. Several agreements were signed and pledges of cooperation declared, but major controversial issues such as the revaluation of the yuan, North Korea, and US relaxation of high-tech exports to China remained unsolved.

The Dialogue produced altogether 26 specific outcomes including six Memorandums of Understanding. Nuclear safety, energy efficiency and security took up nearly half of the agreements signed. Commerce Secretary Gary Locke, a key member of the US delegation, sought to promote clean-energy deals with China, and urged US clean energy firms to take up opportunities in China. The two countries also agreed upon a programme for deepening people-to-people exchange. President Obama announced the goal of sending 100,000 American students to China in the next four years to learn Mandarin and experience Chinese culture. In response, the Chinese government announced the creation of 10,000 scholarships for American students.

North Korea became a dominant security issue during the Dialogue after the publication of a report by a team of international investigators that pointed to Pyongyang as the culprit of the sinking of South Korean naval warship Cheonan. The two sides reiterated their commitments to promote peace and stability on the Korean peninsula; however, no agreement was achieved in how to deal with North Korea.

Each delegation came to the Dialogue with its own wish list. On the US side, the list included the Chinese currency, North Korea’s nuclear programme and its alleged sinking of the Cheonan, trade imbalance and access to Chinese markets of clean energy products. The Chinese priority list included US high-tech exports to China, US trade
protectionism, weapons sales to Taiwan and recognition of China’s market economy status. Obviously there was little convergence on these issues.

The Chinese media was generally positive when reporting and commenting on the Dialogue. They were unanimous in branding it as a successful event. *Xinhua* English news service described the Dialogue as “having achieved consensus and even forged agreements in a number of areas of crucial significance for both sides as well as regional stability” (May 27, 2010). *China Daily* titled one of its front page reports “China, US Reach Consensus on Currency Rate Reform” (May 26, 2010). In comparison, the Western media were more reserved and even sceptical. They focussed on the differences displayed by the two countries and their failure to achieve breakthroughs on thorny issues. A May 26, 2010 *Washington Post* report summarised all: “US-China Talks End without Accords on Key Issues”.

**Background of the Strategic and Economic Dialogue**

The S&ED is a combination and replacement of the former dual-track China-US high-level dialogue mechanisms of the Strategic Economic Dialogue (SED) and the Senior Dialogue (SD) in operation since 2005 and 2006 respectively. The SED, initiated by then US Secretary of the Treasury Hank Paulson and Chinese Vice Premier Wu Yi and supported by then President George W. Bush and President Hu Jintao, was to provide an overarching framework for ongoing bilateral economic dialogues and future economic and financial relations. It was convened semi-annually and led by Secretary of the Treasury on the US side and a Vice Premier on the Chinese side.

On the geopolitical track, the SD was pioneered by then US Deputy Secretary of State Robert Zoellick to forward his goal of engaging China so that it would become a “responsible stakeholder” in the international system. Zoellick, who resigned from the US government and later became President of the World Bank, was succeeded by John Negroponte during the final years of the Bush administration.

When President Obama and President Hu met for the first time in April 2009 in London, they decided to combine the two mechanisms to form the S&ED. The new elevated and expanded dialogue, an annual meeting to be held in alternate capitals for officials of the highest levels, would last for two and a half days and cover security and economic issues of major concern to both sides. The S&ED is an institutionalised mechanism for addressing major challenges and opportunities that the US and China face on a wide range of bilateral, regional and global areas of immediate and long-term strategic and economic interest. Its goal is to deliver concrete, meaningful and sustained progress over time on long-term strategic and economic objectives while enhancing mutual understanding and building mutual trust. It grows out of the need to cooperate and coordinate policies between the two global powers.

The S&ED, however, does not seek to override or weaken other existing dialogue mechanisms between the related sectors of China and the US. It instead seeks to complement them and carry the relationship to a new level by providing a forum for direct involvement of senior officials from both governments. It is intended to lay a solid foundation for building a positive, cooperative and comprehensive China-US relationship.
in the 21st century. The creation of the S&ED shows that there is considerable change in the new Obama administration’s China policy. Discarding President Bush’s preference for unilateral and coercive diplomacy, the Obama team appears to be convinced that engaging China is part of the solution to most, if not all, global challenges.

The first S&ED was held from 27 to 28 July 2009 in Washington, DC. Memorandums of Understanding to enhance cooperation on climate change, energy, environment, and on collaboration in Integrative and Traditional Chinese Medicine were signed. The two sides established a framework for future economic discussion and collaboration which rests on four critical areas of cooperation: 1) combating trade and investment barriers; 2) promoting a strong recovery and more balanced growth; 3) promoting more resilient, open, and market-oriented financial systems; and 4) strengthening the international economic and financial architecture.

Nevertheless, several issues remained unsolved and were carried over to the 2010 S&ED. For example, the US did not fulfill its promise of loosening restrictions on the export of high-tech goods to China. This led Chinese Vice Premier Wang Qishan to press the US government for a schedule to change the policy. In addition, the US agreed to speed up its recognition of China’s market economy status but did not set a timetable.

**S&ED 2010: the Strategic Track**

From the end of 2009 to the beginning of 2010, US-China relations were in a downward spiral due to controversies over US arms sales to Taiwan, President Obama’s meeting with the Dalai Lama, Google’s withdrawal from mainland China, etc. Other security concerns for both sides include North Korea’s nuclear programme and its alleged sinking of the South Korean warship Cheonan, US-Japan military alliance and US bases in Okinawa, Iran’s nuclear development and weapons proliferation in Asia. After months of mounting tensions, President Hu’s decision to attend the global nuclear security summit in Washington, DC in April 2010 and the following hour-long phone conversation between him and President Obama set the relationship back on track.

However, the 2010 S&ED in late May was overshadowed by two unexpected incidents – the deepening debt crisis in Greece and the sinking of the Cheonan. In addition to the situation on the Korean peninsula, discussions were conducted on international security challenges of energy efficiency, Iran, climate change, UN peacekeeping and counterterrorism. Agreements were produced outlining the framework for future cooperation.

The US would like China to support measures against North Korea following publication of the investigation report that North Korean navy torpedoed the Cheonan in March. But China appeared reluctant and called for the parties concerned to “calmly and appropriately handle the issue, and avoid escalation of the situation.” Apparently China was cautious not to jeopardise its relations with North Korea, especially after Kim Jong-il’s visit to Beijing in early May 2010. The two Koreas presented their cases to the UN Security Council in June 2010 while the US and China continued to seek a common solution to the dispute. In July 2010, the UN Security Council issued a presidential statement condemning the attack of the Cheonan without mentioning North
Korea and China urged all parties concerned to move forward and focus on the stability of the Korean peninsula.

On the issue of Iran’s nuclear threat, the US stressed the importance of a unified international response. While China agreed to a watered-down the UN resolution on Iran’s nuclear programme, it has not signed on the annexes that aim at specific Iranian individuals and companies.

On the Chinese side, the Chinese team repeated its request for the US to respect China’s core interests and major concerns, and to pay particular attention to the handling of sensitive issues such as those regarding Taiwan and Tibet. A senior Chinese military official conveyed the message that US arms sales to Taiwan remain the biggest obstacle to US-China military ties.

China also expressed its desire for the US to use its clout to give Beijing a stronger voice in international institutions such as the meetings of the G-20 and the International Monetary Fund. This is part of the call for delivering reform on international governance to give developing countries greater representation.

China was apparently still very angry at the US arms sales to Taiwan and rejected a proposed visit by Defense Secretary Robert Gates on 1 June 2010 citing that it was “not a convenient time.” However, one positive outcome of the strategic dialogue was that regular military-to-military exchanges, which ceased after the US arms sales, are set to resume in the near future. This is a result of direct communication between high military officials of both sides during the 2010 S&ED.

S&ED 2010: the Economic Track

China’s currency issue was supposed to be a focal point of this round of S&ED, but both sides were unexpectedly low profile on this matter. Secretary Geithner made no mention of it in the opening remarks, and the US team did not broach the subject in the first working session. Secretary Geithner later remarked that it was up to China to decide when and how to revalue its currency. President Hu’s remarks at the opening session that China will continue to steadily advance the currency reform under the principle of “independent decision-making, controllability and gradual progress” was interpreted by some as a sign of conciliation. But it was also perceived by some in the media as successfully bringing the issue off the discussion table.

Secretary Geithner, for his part, welcomed such a pledge by Chinese leaders to pursue currency reform as part of a broader agenda aimed at boosting domestic consumption and helping rebalance global growth. A toned-down US on this subject could be attributed to its acknowledgement that the Chinese fully understand the issue and that they are prepared to eventually appreciate the yuan. However, China will
alone determine the timing of any such move, and external pressure is probably going to be counterproductive.

On 19 June 2010 just before the G-20 summit in Toronto, the People’s Bank of China announced its intention to increase the **yuan**’s exchange rate flexibility. Within days the **yuan** rose by 0.75%. China’s currency reform is likely to proceed steadily.

In the face of the European debt crisis, the two sides have reached consensus on protecting macro-economic stability and strengthening macro-economic policy coordination to consolidate the trend towards global economic recovery.

The US delegation came with their president’s goal of doubling exports within the next five years and creating two million jobs through expanded trade with China. Reducing Chinese trade and investment barriers, which are partly responsible for the uneven playing field for US companies, and rebalancing trade to ensure that China’s surplus economy depends more on their domestic demand for growth are two key objectives of the US for the economic track dialogue.

The US successfully persuaded the Chinese to agree to reform the existing set of rules which promotes and protects domestic technology but disadvantages foreign companies. New innovation policies will be consistent with principles of nondiscrimination, intellectual property rights protection, market competition, and non-government interference in technology transfer. The Chinese also pledged to submit a revised offer to join the World Trade Organization (WTO)’s agreement on government procurement by 2010. This is a matter of importance for the US as it ensures fair government procurement treatment for US goods and services. As part of the effort to achieve President Obama’s economic goal, Secretary Geithner also urged China to go further in opening markets for imports and foreign investments from the US while acknowledging the progress China has made during the past few years.

Two issues of particular importance on the Chinese agenda were matters carried over from last year that the two sides had yet to reach a consensus. One was the accordance of China’s market economy status, and the other was the US export controls on “dual use” technology with possible military applications. On the former, both sides agreed to continue the discussion at the China-US Joint Commission on Commerce and Trade (JCCT) to be held in the US in late 2010. When China entered the WTO, all
WTO members agreed to accept China’s market economy status no later than 2010. By early 2010, more than two thirds of member countries had accepted China’s market economy status. The US has yet to do so.

On the latter, Vice Premier Wang Qishan pressed for a timetable and roadmap for the removal of such trade curbs. In response, US Commerce Secretary Gary Locke revealed that the export system was being reviewed and was expected to be completed by late summer 2010. The US export controls are meant to deny China’s military access to technology that might aid its modernisation. They apply to goods such as supercomputers, lasers, navigation systems and high-performance materials used in missiles. Most of the controls were placed in the aftermath of the Tiananmen Square incident in 1989.

In addition, Vice Premier Wang also urged the US to give equal treatment to Chinese enterprises investing in the US, which is a concern shared by the US, and Secretary Geithner asked China to give American firms the same opportunities that Chinese companies enjoy in the US.

**S&ED and US-China Relations**

US-China relations are undoubtedly one of the most important bilateral relationships in the world today. In the words of President Obama, “the relationship between the US and China will shape the history of the twenty-first century.” With China emerging as a great power in the international system, expectations of it playing a bigger role in international affairs and assuming more international responsibilities are on the rise. In fact, few global problems can be solved by either power acting alone, and few can be solved without the US and China working together.

However, China still considers itself a developing nation with daunting domestic challenges. It does not seem to be ready for a global leadership role. As is evident from this round of S&ED, the US came with a long priority list for China on both economic and security issues. But what China wants to focus on is mostly policies that can help turn it into an economic powerhouse without putting its prized geopolitical stability at risk.

The S&ED is a particularly important communication platform for them to work out their differences. It is a forum for a better understanding of each other’s long-term interests and intentions. It will continue to provide a venue to promote mutual understanding and establish a friendly atmosphere between the two sides. Through time, the mutual trust established helps to ensure a stable bilateral relationship. And it will play a crucial role in times of crisis, problem solving and conflict resolution. From the tensions between the two sides relating to Taiwan and the Dalai Lama in early 2010 to the steady improvement of relations by mid-2010, the two countries have become more mature in handling their relations, especially their disagreements. The dialogue mechanism plays a significant role in managing the complex and multi-faceted bilateral relationship.

With the US and China staged as two equal powers, the S&ED signals the emergence of a new partnership between the two great powers. But this does not herald the formation of a US-China alliance.
of G-2—with the US and China co-managing global affairs. Indeed, many do not have a positive view of the so-called G-2. Nevertheless, the S&ED serves the broad interests of both nations and represents a new kind of cooperative great power relationship and global power structure.

The US and China are neither allies nor enemies. They are interdependent and truly joined at the hip. In the near future, competition and cooperation will continue to dominate their interactions. No open confrontation can be afforded by either side given their deeply intertwined economies. Hence the significance of the dialogue mechanism in managing the relationship into a mature one of coexistence and cooperation in spite of differences and competition.

The outcomes of the two rounds of S&ED reflect its limitations. As Deng Xiaoping cautioned in the 1980s, there were inherent limits to better or worse relations between China and the US. Major controversial issues such as Taiwan, trade and North Korea are unlikely to be resolved during these brief meetings.

China expert David Shambaugh of George Washington University has reservation about the promise of the S&ED projects. His reasons are first, the Chinese are unused to putting all the main players in one room to deal with the key issues in public; and second, there was no widespread acceptance in the US regarding the idea of dealing with China as an equal. Yet, the S&ED does play a positive role in promoting the relationship, which returned to normal after a rocky period in early 2010. The steady improvement of the relationship also justifies the function, value and raison d'être of such dialogue mechanisms. While bilateral conflicts will continue to periodically surface, communication is key to directing the relationship back on track.

For the US, a smooth and productive relationship with China is critical to its economic recovery efforts. The year 2010 happens to be a mid-term election year in the US; any foreign policy achievement will help President Obama and the Democratic Party. For China, its relations with the US remain its top foreign policy priority.

For the S&ED to be effective, it is crucial for both sides to ensure that declared pledges are followed with real actions and that vague agreed-upon frameworks are filled in with detailed roadmaps. This will ensure that the meetings will not be reduced to mere media events in the future. Since the S&ED cannot cover the whole spectrum of issues that animate the US-China relationship, and not all of the topics on agenda can be solved within a single meeting, other platforms such as the Human Rights Dialogue and the JCCT should continue to play their roles in addressing these issues.

Given today’s deepening globalisation and interdependence of countries, any confrontation between the US and China will have worldwide effects. It is therefore in everyone’s interest to have a positive US-China relationship. Mechanisms such as the S&ED are very helpful in promoting mutual understanding and cooperation between the two great powers.