



U.S.-China Relations:
Dialogue Boosts Ties, Even Without Results

Bonnie Glaser
CSIS/Pacific Forum CSIS

A gaggle of Cabinet secretaries, led by U.S. Treasury Secretary Paulson, traveled to Beijing in mid-December to launch the Strategic Economic Dialogue. No breakthroughs were achieved, but both sides had low expectations for near-term results and seemed pleased with the outcome. On the North Korea nuclear front it was all bad news, with Pyongyang testing a nuclear device in early October and no tangible progress achieved at the resumption of the fifth round of Six-Party Talks after a 13-month hiatus. A positive byproduct was that intensive consultations between Washington and Beijing boosted bilateral ties. The U.S. mid-term elections that resulted in the seizure of control over both the House and Senate by the Democratic Party generated some concern in China about increased pressure on trade and human rights. On balance, however, Beijing remained confident that China-U.S. relations would remain on a positive track. Military-to-military ties continued to develop with a three-day U.S. ship visit to Zhanjiang, China, joint military exercises between the U.S. Navy and Marines and their Chinese counterparts, and a visit to China by U.S. Pacific Fleet Commander Adm. Gary Roughead.

The Strategic Economic Dialogue

Amid growing criticism in the U.S. of the growing U.S.-China trade imbalance, the undervaluation of China's currency, the lack of intellectual property protection in China, and restrictions on U.S. companies' access to China's market, Treasury Secretary Henry Paulson traveled to Beijing in mid-December to launch the Strategic Economic Dialogue (SED). Accompanying him were a half dozen Cabinet secretaries, including Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and Federal Reserve Chairman Ben Bernanke. On the eve of the delegation's departure for Beijing, Paulson sought to tamp down expectations for quick results. In an op-ed, in *The Washington Post*, he emphasized the positive benefits that flow to both nations from their trade and economic ties. "By engaging Chinese leaders with an eye to producing long-term benefits for our two nations, we can build a productive and prosperous partnership for the 21st century," he wrote.

Time will tell if the one-and-a-half day initial meeting of the SED will serve as just another forum to promote better understanding of respective U.S. and Chinese positions or will facilitate resolution of the knotty issues in the China-U.S. economic relationship. The theme of the first round, chaired by Paulson and Chinese Vice Premier Wu Yi, was “China’s Development Road and China’s Economic Development Strategy.” In a press briefing following the discussions, Paulson announced that the two countries had agreed on basic principles covering a wide range of issues, including further economic reforms Beijing should implement to achieve balanced, sustainable growth, although he admitted that the two sides differed on the timing of the changes required. “While we cannot resolve every difference we have had,” Paulson said, “the candid conversations we have had will make progress much more achievable.” A fact sheet issued by the U.S. Treasury Department highlighted the shared commitment to pursuing macroeconomic policies, with explicit mention of the need to reform China’s exchange rate regime reform and increasing U.S. savings rate.

In a pedantic presentation to the SED participants at the Great Hall of the People, Wu Yi recounted 5,000 years of Chinese history and chastised “some American friends” who have “limited knowledge” and “much misunderstanding about the reality in China.” Her message – that Chinese reforms are proceeding at a pace faster than many U.S. observers appreciate – was undoubtedly aimed not only at the U.S. delegation, but also at the U.S. Congress, which is growing impatient with the slow rate of change in Chinese economic policies that are perceived to have harmful effects on U.S. interests. China’s ministers presented their own complaints to their U.S. counterparts, including a demand for the U.S. to lift its ban on sales of high-technology products to China and to end unfair charges against China for dumping low-cost exports into U.S. markets.

The toughest statement by the U.S. side was reportedly delivered by the U.S. Trade Representative Susan Schwab, who presented the findings of a report her office issued the week prior to the SED assessing China’s record in implementing its World Trade Organization (WTO) commitments five years after its accession. Schwab maintained that China’s record is “decidedly mixed” and claimed that Beijing is “backsliding” in its obligations to open its economy. She called for China to shift from an export-oriented growth strategy to one based on domestic consumption. China’s Ministry of Commerce spokesman condemned the USTR report on China’s fulfillment of its WTO commitments as lacking objectivity in its criticisms of China’s record on IPR, industrial policy, and service trade.

Over the next six months, in preparation for the next SED which is planned for May 2007 in Washington, D.C., working groups will be held on development of efficient innovative service sectors, ways to improve health care, bilateral investment, transparency issues, and energy and the environment. There was also agreement to invigorate ongoing work within the Joint Commission on Commerce and Trade (JCCT) on high-tech trade, IPR, and market economy status/structural issues. Relying on other dialogue mechanisms, both sides committed to increase cooperation on more efficient and environmentally sustainable energy use, facilitation of personal and business travel, development assistance, and Multilateral Development Bank (MDB) lending.

Additional deliverables of the SED included announcements that the NYSE and NASDAQ would open offices in China, the United States will support China's membership in the Inter-American Development Bank, and China will participate in the government steering committee of the FutureGen project, which plans to build a prototype of the fossil-fueled power plant of the future that will produce electricity and hydrogen with zero emissions. Agreements were also reached to facilitate financing to support U.S. exports to China and to re-launch bilateral air service negotiations.

Finally, several commercial deals were concluded on the margins of the SED: 1) Westinghouse Electric Co. won a contract worth about \$5.3 billion to build four nuclear reactors in China; 2) Home Depot, Inc. acquired a chain of 12 Chinese home improvement stores; 3) China's Shanghai Airlines signed a \$550 million deal to buy General Electric aircraft engines that includes a purchase of \$300 million worth of engines to power nine Boeing 787 *Dreamliner* aircraft, as well as a \$250 million service contract; 4) Oshkosh Truck Corporation signed a purchase contract for the sale of an aircraft rescue and fire fighting vehicle to Quzhou airport in China's Zhejiang Province; and 5) VeriSign, China Netcom Group, and the Ministry of Information and Industry agreed to set up a system to help create domain names.

Chinese media commentary on the SED was mostly upbeat, including coverage of meetings the U.S. delegation held with Chinese leaders. China's official news agency *Xinhua* quoted Chinese President Hu Jintao as telling Secretary Paulson that the bilateral economic and trade relationship is among the "most important" in the world, and that the SED has brought the two countries closer, has "deepened mutual understanding," and provided "new opportunities for cooperation." Chinese scholars generally lauded the new dialogue mechanism, but differed in their analysis and recommendations. For example, director of the China WTO Research Institute Zhang Hanlin cautioned that the U.S. hopes China will accelerate its reforms so that it "can enter China's market more rapidly," and urged the Chinese government to stick to its policy of "advancing gradually in appreciating the renminbi." However, Zhu Feng, professor of Beijing University's Department of International Relations, contended that not all U.S. demands are harmful to China's interests.

A few days after the close of the SED in Beijing, the Treasury Department issued its semi-annual report to Congress on international exchange rate policies. It concluded that no major trading partner of the U.S. is manipulating its currency exchange value to gain an unfair advantage in trade. The report praised China for a "significant" increase in the flexibility of its currency, the renminbi, but also maintained that "China's cautious approach to exchange rate reform continues to exacerbate distortions in the domestic economy and impede adjustment of international imbalances." The renminbi has appreciated almost 6 percent against the dollar since July 2005 when Beijing replaced a rigid peg to the dollar with a more flexible trading range.

Nuclear talks bring China and U.S. closer

Although no measurable progress was made toward the elimination of North Korea's nuclear weapons this quarter, U.S.-Chinese consultation aimed at achieving that shared objective was frequent and substantive, and reinforced the trend of closer cooperation. Beijing reportedly informed Washington of Pyongyang's decision to hold a nuclear test immediately after it was notified by the North Koreans – only 20 minutes prior to the test. Once the test took place, a flurry of phone calls took place between Secretary of State Condoleezza Rice and Chinese counterpart Foreign Minister Li Zhaoxing and between the U.S. and Chinese presidents.

Further consultations took place during a visit to Washington, D.C. by State Councilor Tang Jiaxuan the following week who was dispatched as President Hu Jintao's special envoy and was received by President Bush. Close coordination continued on U.N. Security Council Resolution 1718, which imposed mandatory sanctions on North Korea under Chapter 7 of the U.N. charter. On the eve of Assistant Secretary of State for East Asia Affairs Christopher Hill's departure for Asia in mid-October – the first of five trips to the region this quarter – he highlighted the unprecedented cooperation between Washington and Beijing with respect to China's neighbor. U.S.-China relations have “really come closer together as a result of this terrible provocation by the North Koreans,” Hill stated at a Washington forum.

Implementation of UNSC Resolution 1718 and reactivating diplomatic efforts to denuclearize the Korean Peninsula were the central topics of discussion during Secretary Rice's stopover in Beijing on the third leg of a four-nation tour that also included Japan, South Korea, and Russia. Rice's appreciation of China's diplomatic efforts to solve the North Korea nuclear issue was noted in the Chinese press, along with her message that the United States “is willing to enhance communication with China and seek an effective way to solve the issue.” In meetings with Tang Jiaxuan, Li Zhaoxing, Wen Jiabao, and Hu Jintao, Rice discussed U.S.-China economic ties, Taiwan, human rights in China, Darfur, and the Iranian nuclear issue in addition to the North Korea nuclear challenge.

When Beijing secured North Korea's agreement to return to the Six-Party Talks, President Bush publicly thanked the Chinese for their role in convincing the North Koreans to resume the multilateral discussions. Meeting on the sidelines of the APEC Leaders' Meeting in Hanoi in November, Bush praised Hu Jintao as a great leader and expressed his belief that “by working together we can help solve problems such as North Korea and Iran.”

During the weeklong second phase of the fifth round of Six-Party Talks in Beijing in December, Chris Hill told the press that the U.S. has “worked very well together with the Chinese” throughout the six-party process, adding that “the quality of that relationship as actually improved” since the nuclear test. In separate remarks to reporters, Hill stated “if the U.S. and China are able to be successful and work together on this, I think we're going to be successful for years to come on various other issues in the world.”

Assessing implications for China of the U.S. mid-term elections

The Democratic Party's landslide victory in the mid-term elections that enabled the Democrats to usurp control of both the House and Senate for the first time in 12 years attracted China's close attention for two reasons. First, political change in the U.S. of any kind creates unwelcome uncertainty in Beijing about future U.S. policy. Despite its gripes about some of the policies pursued by the Bush administration and the Republican-controlled Congress, China has become accustomed to the prevailing power balance in Washington and loathes changes that can bring unpredictable consequences. Second, there is wariness that a Democratic takeover of both houses of Congress will result in greater pressure on China on human rights and trade issues.

In the aftermath of the elections, much of Chinese concern centered on Nancy Pelosi, the new speaker of the House of Representatives. A profile of Pelosi in the CCP Central Party School newspaper *Xuexi Shibao* described her as "prejudiced" against China and predicted that she would challenge the Bush administration's China policy. In interviews with various Chinese media, Chinese scholars recalled that Pelosi was one of the leaders of Congress who had called Chen Shui-bian to congratulate him when he won the 2000 Taiwan presidential election and worried that she might support legislation that could embolden President Chen to promote his Taiwan independence agenda. Concerns were also voiced about incoming Senate Majority Leader Harry Reid, who favors a tougher response to China's intellectual property rights abuses and currency manipulation.

The majority of Chinese experts concluded, however, that the outcome of the congressional elections would not significantly change the overall direction of China-U.S. relations and probably would have only limited impact on specific policies. Congress's traditionally limited authority over foreign policy matters is one reason cited. But the more widely mentioned source of Chinese confidence that China-U.S. relations will remain on a positive track is that following the Sept. 11 terrorist attacks and North Korea's nuclear test, the U.S. – both Democrats and Republicans – understand the importance of cooperating with China. "Even the Democratic Party must face up to the reality in Sino-U.S. relations," asserted Fu Mengzi, director of the American Studies Institute of the China Institutes of Contemporary International Relations, in an interview with the PRC-owned Hong Kong news agency *Zhongguo Tongxun She*.

U.S.-Chinese military exercises

U.S.-Chinese military exchanges continued to expand this quarter with a three-day port visit by the *USS Juneau* to Zhanjiang, joint military exercises between the U.S. Navy and Marines and their Chinese counterparts, and a visit to China by Adm. Gary Roughead, his first as commander, U.S. Pacific Fleet. The joint navy exercise – the second phase of the first-ever bilateral military exercise that was held off the coast of California in September – involved China's guided missile destroyer *Zhanjiang*, China's fuel tanker *Dongting Lake*, the *USS Juneau*, an amphibious transport dock ship, the *USS Fitzgerald*, a missile destroyer, as well as helicopters, transport aircraft, and reconnaissance aircraft in a

simulated rescue of a Chinese ship in danger. The two navies conducted communications, fleet formation changes, and search-and-rescue exercises (*SAREX*).

Chinese media coverage of the exercise was detailed and effusive. *Zhongguo Guofang Bao* (*China Defense News*) maintained that the U.S. and Chinese ship formations “cooperated and coordinated so well under appropriate direction that it was like a powerful and majestic movement of a symphony being performed between the deep blue sea and the azure sky.” Prior to the exercise, Adm. Roughead suggested that the *SAREX* would enhance Chinese and U.S. capabilities for jointly combating tsunamis, earthquakes, volcanoes, and other natural disasters, as well as their capabilities to provide humanitarian assistance.

Forty U.S. marines from the U.S. and China also took part in an obstacle course competition and a shooting drill in Zhanjiang, marking the first such exchange between the two countries’ marines. Adm. Roughead observed the demonstration and told China’s news agency *Xinhua* that the Chinese naval marine unit’s “pride, fitness, precision, and drive for excellence” has much in common with U.S. marines. On his weeklong visit Nov. 12-18, Adm. Roughead also visited Beijing and Shanghai, and met with PLA Navy Commander Vice Adm. Wu Shengli and Vice Adm. Gu Wengen, commander of China’s South Sea Fleet.

In interviews with reporters prior to his discussions with Chinese military officials, Roughead hailed the joint exercises as a good opportunity to increase transparency. He also voiced concerns about the intention behind some of the developments in China’s Navy, including an expanding submarine fleet and procurement of ships that can operation far beyond China’s shores.

While U.S. Navy and Marine forces were in China, a report was leaked to *The Washington Times* that a Chinese *Song*-class diesel-powered attack submarine had surfaced within 5 miles of a U.S. aircraft carrier battle group the previous month before being detected. Chief of U.S. Forces in the Pacific, Adm. William J. Fallon, confirmed the incident and warned of the potential danger of miscalculation that is inherent when military units operate in close proximity. The *USS Kitty Hawk* and its escorting ships were engaged in exercises, but were not searching for submarines, Fallon said. “If they had been,” however, “and this Chinese submarine happened to come in the middle of this, then this could well have escalated into something that was very unforeseen,” he added. Chinese foreign ministry officials denied that the incident took place, but *Zhongguo Tongxun She* maintained that the episode demonstrated improvements in Chinese capabilities to “detect electronic signals of the U.S. fleet” and named Ding Yiping, the submarine commander, as “one of the most important commanders of important naval operations.”

Looking forward to 2007

At year's end, China-U.S. relations are relatively stable, although far from trouble free. The Democrats' takeover of Congress in January will undoubtedly raise the level of attention to China's shortcomings and objectionable policies, especially in the economic realm. The 2008 presidential campaign will soon begin in earnest and China is likely to be a more contentious issue than it was in 2004. Yet, as it seeks to grapple with how to either win the war in Iraq or contain damage done from a defeat there, stabilize Afghanistan, contain the further spread of nuclear weapons, and to fight the war on terror, the Bush administration will likely seek to keep relations with China on an even keel.

As the first quarter of 2007 opened, Vice Minister Yang Jiechi visited Washington, D.C. to discuss and plan the coming year's bilateral exchange program. The fourth round of the Senior Dialogue and the second round of the Strategic Economic Dialogue are slated for the first half of the year. Although there are no plans for a presidential summit, Presidents Bush and Hu will meet on the sidelines of several international and regional meetings. Visits to the U.S. by Chinese Foreign Minister Li Zhaoxing and National People's Congress Chairman Wu Bangguo are under discussion. With Admiral Fallon's departure from the Pacific Command, U.S.-China military ties will lose one its most ardent supporters. Nevertheless, military exchanges will continue to slowly expand based on the plan that was agreed upon at last June's Defense Consultative Talks, including a first-ever visit to the U.S. by the head of China's Second Artillery (missile) forces.

Chronology of U.S.-China Relations October-December 2006*

Oct. 9, 2006: North Korea conducts an underground nuclear test. Beijing, notified of the test 20 minutes in advance by Pyongyang, alerts the U.S. of the impending nuclear test.

Oct. 9, 2006: Chinese FM Li Zhaoxing and U.S. Secretary of State Condoleezza Rice hold phone conversation about the North Korean nuclear test and related issues. Presidents George Bush and Hu Jintao also discuss North Korea's nuclear test by telephone.

Oct. 12, 2006: Hu Jintao dispatches a special envoy, State Councilor Tang Jiaxuan, to Washington, D.C. in the aftermath of North Korea's nuclear test. Tang meets President Bush, Secretary Rice, and National Security Advisor Stephen Hadley.

Oct. 15-17, 2006: The U.S.-China Science and Technology Policy Forum takes place in Beijing. Forum participants include policy-level government officials, scientists, engineers, and policy scholars from both the U.S. and China.

* Chronology compiled by Kyle Jaros, CSIS intern

Oct. 18-19, 2006: The 12th China-U.S. Joint Commission Meeting on Scientific and Technological Cooperation is held in Washington, DC. State Councilor Chen Zhili, Chinese delegation head, meets John Marburger III, director of the White House Science and Technology Policy Office, to discuss cooperation in science and technology.

Oct. 20, 2006: Secretary Rice stops in China on the third leg of a four-nation tour that also includes visits to Japan, the ROK, and Russia. Rice meets with Hu Jintao, Premier Wen Jiabao, Chinese FM Li Zhaoxing, and Tang Jiaxuan.

Oct. 31, 2006: The heads of delegations to the Six-Party Talks from China, North Korea, and the U.S. hold an informal meeting in Beijing. Assistant Secretary Chris Hill notes a Chinese statement that North Korea has agreed to return to Six-Party Talks.

Nov. 7, 2006: U.S. holds mid-term elections, in which Democrats gain control of both houses of Congress.

Nov. 8, 2006: China and the U.S. hold the third round of the Senior Dialogue in Beijing, agreeing on stronger cooperation and closer consultation. Chinese Vice FM Yang Jiechi and the U.S. Undersecretary of State Nicholas Burns co-chair the Dialogue.

Nov. 13-16, 2006: In an effort to expand U.S. export opportunities, Secretary of Commerce Carlos M. Gutierrez leads a delegation of 25 U.S. business executives to China to discuss ways to resolve key bilateral trade issues with senior Chinese officials. Gutierrez meets Vice Premier Wu Yi and Premier Wen. He also meets Han Zheng, acting party chief and mayor of Shanghai, and expresses a U.S. interest in playing a large role in Shanghai's 2010 World Expo.

Nov. 13, 2006: Jon Dudas, U.S. under secretary of commerce for intellectual property, meets Liu Binjie, China's deputy director of the State Press and Publication Administration, to discuss intellectual property protection at a closed-door session in Beijing. Both parties express interest in furthering U.S.-China cooperation in anti-piracy.

Nov. 14, 2006: U.S. Ambassador to China Sandy Randt takes part in fifth annual Ambassador's IPR Roundtable in Beijing.

Nov. 15, 2006: Commander of the U.S. Pacific Fleet Adm. Gary Roughead arrives in China on the *USS Juneau* for a weeklong visit that includes U.S.-Chinese joint naval exercises.

Nov. 16-17, 2006: Secretary of Education Margaret Spellings visits Beijing at the invitation of China's Ministry of Education as part of U.S. Higher Education Delegation to Asia. She discusses educational exchange opportunities with Education Minister Zhou Yi and Premier Wen and visits top Chinese universities.

Nov. 16, 2006: Forty marines from the United States and China take part in an obstacle course competition in Zhanjiang, a port city in South China's Guangdong Province. The competition marks the first face-to-face exchanges between the two marine forces.

Nov. 16, 2006: The U.S. China Economic and Security Review Commission releases its *2006 Annual Report to Congress*. The report gives lawmakers 44 recommendations, which include boosting support for Taiwan's bid to join international organizations and placing more pressure on China to end genocide in Sudan's Darfur region.

Nov. 17-19, 2006: Presidents Bush and Hu hold a bilateral meeting in Hanoi, Vietnam on the sidelines of the 14th APEC Leaders Meeting. Secretary Rice, also in attendance, expresses concerns about China's outsized military expansion, unfair trading practices, and human rights record, but says U.S. concerns are manageable within the context of a strong bilateral relationship.

Nov. 19, 2006: The U.S. and PLA navies take part in a bilateral joint search and rescue exercise. Following a port visit to Zhanjiang, China, the *USS Juneau* participates in the exercise off the southern Chinese coast.

Nov. 20, 2006: Assistant Secretary of State Christopher Hill arrives in Beijing to discuss the Six-Party Talks with Chinese officials.

Nov. 21, 2006: In the first case in 15 years, the Department of Commerce accepts a petition requesting an anti-subsidy investigation of coated printing paper from China.

Nov. 27, 2006: Presidents Bush and Hu exchange views on Darfur and other issues of common concern in a telephone conversation.

Nov. 28, 2006: Chief negotiators of China, the DPRK, and the U.S. meet in Beijing to discuss resumption of the Six-Party Talks.

Dec. 5, 2006: U.S. Secretary of Commerce Carlos Gutierrez announces that the public comment period has closed for new U.S.-China export security regulations, and that he will be leading an effort to finalize the new rules.

Dec. 5, 2006: The second session of the Seminar on U.S.-China Legal Exchange takes place in Cleveland, Ohio. Vice Director of China's State Council Office of Legislative Affairs Zhang Qiong, Vice Minister of Commerce Ma Xiuhong, and General Law Consultant of the U.S. Department of Commerce John Sullivan attend.

Dec. 7, 2006: In a statement released a week before his trip to China as part of the U.S.-China Strategic Economic Dialogue delegation, Energy Secretary Sam Bodman says that the U.S. and China will strengthen cooperation on energy security.

Dec. 8, 2006: During a visit to Beijing, Massachusetts Gov. Mitt Romney meets Chinese State Councilor Tang Jiaxuan and delivers a speech at Qinghua University.

Dec. 11, 2006: U.S. Trade Representative issues a report, required by law, on the fifth anniversary of China's joining the World Trade Organization. The report notes China's incomplete transition from a command economy to a free market economy.

Dec. 11, 2006: Fifth anniversary of China's accession to the WTO.

Dec. 13, 2006: In a meeting with Hu Jintao, former President George H. W. Bush says the U.S.-China relationship is "the best ever in history."

Dec. 13, 2006: Secretary of Health and Human Services Michael Leavitt and Chinese Vice Minister of Health Huang Jiefu inaugurate the China-U.S. Collaboration Program Office for Emerging and Reemerging Infectious Diseases in Beijing.

Dec. 14-15, 2006: Treasury Secretary Henry Paulson and Chinese Vice Premier Wu Yi co-chair the first round of the Sino-U.S. Strategic Economic Dialogue in Beijing.

Dec. 16, 2006: Energy Secretary Bodman attends energy ministerial meeting of China, the U.S., Japan, the ROK, and India in Beijing. The meeting focuses on ways to increase energy utilization efficiency, keep international energy markets stable, and strengthen international energy security.

Dec. 16, 2006: China's Minister of the National Development and Reform Commission (NDRC) and Secretary Bodman sign a memorandum of understanding for Westinghouse Electric Co. to provide technology for four nuclear power plants to be built in China. Westinghouse is awarded the \$8 billion contract.

Dec. 18, 2006: The Six-Party Talks open in Beijing.

Dec. 19, 2006: The Treasury Department releases its semiannual currency report, which does not cite China as a currency manipulator.

Dec. 22, 2006: As the Six-Party Talks recess, Chinese FM Li Zhaoxing and Secretary Rice speak by phone.

Dec. 31, 2006: A delegation from the Armed Services Committee of the U.S. House of Representatives, headed by Congressman Roscoe Bartlett, visits China and meets Chinese Defense Minister Cao Gangchuan.

Jan. 5, 2006: Chinese Vice FM Yang Jiechi meets Secretaries Rice and Paulson as part of his trip to Washington.

Jan. 5, 2006: President Bush names Commander of U.S. Pacific Command Adm. Fallon as the next commander of Central Command, which covers the war efforts in Iraq.