

Why Go Strategic?

The Value of a Truly Strategic Dialogue Between the United States and China

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Summary

For the last decade, the economies of the United States and China have been twin engines driving global growth. Together, the two countries account for a third of the global economy and a quarter of the world's population. In both bilateral and multilateral settings, they must work together to manage global agendas, or risk clashing. This growing interdependence—and the increasing potential for misunderstandings around key issues—requires that the two countries have established tracks for managing a truly strategic relationship, in addition to the routine bilateral dialogues that deal with daily operational issues.

The Obama administration's Strategic and Economic Dialogue (S&ED) has assumed the mantle of steering the U.S.–China strategic relationship from the Bush administration's Strategic Economic Dialogue (SED). Many of the aspects of the current dialogue still follow the SED's design, but key structural changes and an expansion of issues make it harder than ever to ensure that it remains a strategic dialogue.

While cumbersome, the S&ED's structure can operate effectively, but it needs to adhere to three guiding principles:

1. Set up clear lines of communication and establish a strong collaborative process within the joint S&ED management team.
2. Recognize the difference between the bilateral relationship and strategic relationship and do not allow one to replace the other.
3. Use the unique qualities of the strategic dialogue to leverage policy innovation and push forward each country's interests.

The United States and China learned from the SED and first two rounds of the S&ED that working closely together can produce significant results in the short term. The gamble now is whether sustaining the high level of engagement over the medium term is worth the political and bureaucratic effort. The S&ED mechanism is uniquely positioned to build the relationship, but to make it work, both sides will need to clarify leadership channels, devote more time and staff, and empower the dialogue by employing the central coordination capability of the State Council and the National Security Council to ensure that the two governments are fully behind the effort.

During the U.S.–China Strategic and Economic Dialogue (S&ED) held in late May, many observers were watching to see if the meeting would continue the series of substantive dialogues between the United States and China or if it would signal its deterioration into an annual event without serious results. Several critical issues were on the table—China’s currency, Taiwan arms sales, export controls, North Korea, Iran, and a series of market access questions in both countries. Judging by the drubbing the meeting took in the U.S. press, one could easily conclude that the dialogue is becoming an expensive exchange of platitudes.

Unfortunately, most of these evaluations are short-sighted and unhelpful. These criticisms suggest that the value of a strategic dialogue is only in its ability to reach agreement on the issues in media headlines. They pressure both sides to turn the S&ED into a two-dimensional confab replacing the normal stream of bilateral engagement. What the U.S.–China relationship needs is a truly strategic discussion to steer a critically important, yet increasingly complex, bilateral relationship while still managing the time-sensitive issues of the day.

The Importance of the U.S.–China Relationship

For the last decade, the economies of the United States and China have been twin engines of global growth. Together, they account for a third of the global economy and a quarter of the world’s population. In both bilateral and multilateral settings, the two countries find that they must work together to manage global agendas, or risk clashing. Trade, Taiwan, and human rights are no longer the only irritants in the relationship. Other issues—including cybersecurity, carbon emissions, development practices, and how the two powers can work together in the global system—have become increasingly important aspects of the U.S.–China relationship.

Because of this growing interdependence—and the increasing potential for misunderstandings around key issues—the two countries must establish tracks for managing a truly strategic dialogue, in addition to the routine mechanisms that deal with the daily operations of a bilateral relationship.

While tensions between the United States and China have historically oscillated, the multiple facets of the relationship mean that each rise and fall creates the potential for new misunderstandings and hard feelings. Translating the symbolic importance of issues and sorting through the misunderstandings and frustrations have proven to be excessively complicated for well-meaning government officials, and pointless for politicians who find they benefit more by riding anti-China or anti-U.S. sentiments than from trying to bring the two countries together.

The result of not dealing with these problems is abusive negotiating practices and hard-line policies and rhetoric. Further, as these misunderstandings grow, they quickly become conspiracy theories, such as those perpetrated by the popular Chinese book *Currency Wars*.

Attempts to sort out these misunderstandings reveal that economic growth remains at the heart of the U.S.–China relationship. Both powers find their most compelling shared interests and many of their most contentious disputes steeped in economic interests. The United States and China are the first and third largest economies in the world, respectively; the second and first largest consumers of energy; and the two largest producers of greenhouse gases. China is also the fastest-growing market for U.S. goods and services.

Highlighting the economic connections can often produce solutions by creating trade-offs across a spectrum of issues. At the same time, non-economic issues have also been managed by highlighting the mutual benefits of our economic relationship.

Thus, while the temptation is often to focus directly on the issue at hand, managers of the U.S.–China relationship can keep the overarching dynamic on a positive track while managing tensions over urgent issues. The challenge is to find a way to manage the relationship by focusing on long-term strategic interests while navigating the mine fields of short-term priorities.

Rationale for a Strategic Dialogue

In many ways, the U.S.–China relationship is like a major international airport with a series of political and economic issues flying in and out daily. To manage these daily interactions, leaders need to place decisions and their corresponding reactions in the broader strategic context. Neither country would leave managing the flights up to an individual airline company or, worse, to a pilot of one of the planes. Instead, air traffic controllers oversee the daily operations as well as the longer-term planning.

A strategic dialogue is just that—a process led by experienced and high-level officials who see the breadth of bilateral activities and ensure that the two countries do not change course without understanding the broader implications to their relationship. Perhaps most importantly, the dialogue helps plan for the future, develops emergency response mechanisms for crises, and sets the two countries on a path toward cooperation and strategic alignment.

To build a healthy dynamic relationship, the two powers must have appropriate mechanisms in place to manage the different facets of their association from a strategic perspective while dealing with the “hot” issues of the day.

Understanding how to do this is the key to ensuring that the United States and China are able to manage disagreements and remain global engines of growth. While the concept is simple, the reality of managing such a dialogue and ensuring that it is durable and effective is not something that comes naturally to bureaucratic systems.

Strategic Dialogues Between the United States and China

The S&ED emerged in 2009 as the Obama administration's rendition of the Strategic Economic Dialogue (SED). Viewed by both sides as a success, the SED was established by Presidents George W. Bush and Hu Jintao and led by then-U.S. Treasury Secretary Hank Paulson and by Chinese Vice Premier Wu Yi and after her retirement by Vice Premier Wang Qishan. It sought to keep the U.S.–China relationship on an even keel and to manage emerging tensions between the two countries, while expanding interactions in areas where they have the most in common—that is, mutual strategic interests.

The goal of the SED was to create a dialogue that would allow the top levels of leadership to set a strategic agenda across all aspects of the bilateral economic relationship, including financial sector reforms, product safety, health care and insurance, energy and environment, sustainable economic growth, climate change, trade differences, and development assistance—in short, anything with an economic link. Structurally, this meant that the heads of all existing high-level bilateral dialogues with economic content came together through the SED to establish priorities across disciplines. In order to track the quality and progress of the relationship, they established a series of agreements and courses of work.

The S&ED follows the same basic structure as the SED: the secretaries and ministers of relevant agencies and ministries gather together for a day and a half in Washington or Beijing to discuss the strategic direction of the U.S.–China relationship. Critical to each session of the dialogue is a meeting with the host country's president.

The S&ED also differs in several ways. Rather than focusing on all topics in a single meeting, the S&ED divides issues into two tracks—the strategic track and economic track—to cover all issues in the bilateral relationship.¹ The leadership was expanded to include both U.S. Treasury Secretary Timothy Geithner and Vice Premier Wang Qishan as the co-leaders of the economic track, and U.S. Secretary of State Hillary Rodham Clinton and her Chinese counterpart, State Councilor Dai Binggou, as co-leaders of the strategic track. Rather than meeting every six months, the S&ED now meets once a year.

The size of the dialogue has also changed. While the number of agency heads has remained essentially equivalent to those participating in the SED, the number of staff and other officials has dramatically expanded. The United States brought more than 200 people to the S&ED meeting in Beijing in May, while the SED limited participation to the head of agency and three other agency staff.

The S&ED also significantly reduced the amount of time that the heads of agencies spend together in formal discussions. While the SED was a full day and a half of required attendance, the S&ED has a brief plenary session with all participants and then divides into its separate tracks, which in turn employ break-out groups led by lower-level officials.

Creating Success

The success of the SED was due in large part to two factors. First, it had clear leadership, and second, each country employed a strong internal coordination process that reinforced both the leadership and the importance of determining national priorities.

When he appointed Paulson to lead the dialogue, President Bush gave him what was in essence a super-cabinet role for the SED. In this role, Paulson was able to speak for all U.S. economic agencies and represent the U.S. government on economic issues, including the U.S. Trade Representative's office, the Department of Commerce, the Department of State, the U.S. Trade and Development Agency, and the Department of Energy. President Hu endowed Wu with the same broad-reaching authority.

To ensure coordination within the United States, the National Security Council brought together all of the relevant agencies to agree on a set of priorities and strategic objectives for the U.S. relationship with China. The State Council served this role in China. These central coordination bodies ensured that each country developed and prioritized national strategic priorities that it wanted to achieve through the dialogue. This enabled the rounds of the dialogue to focus on aligning the two countries' national agendas, while work between the dialogue meetings was freed to focus on implementation.

The importance of leadership in the SED cannot be overemphasized. While in China vice premiers have formal authority across multiple ministries, it is rare in the U.S. system to find one cabinet official who is able to lead a group of agencies in a regular dialogue. The SED could not have worked if the president had not been fully committed to the process and if all of the cabinet officials participating had not seen a direct benefit to their taking part. Secretary of State Condoleezza Rice, for example, supported the dialogue because she knew that by getting the economic relationship right she would have an easier time working on other non-economic issues with China.

The role of the NSC was to support and encourage all of the agencies working together to prioritize issues and ensure that all levels of the bureaucracy were on the same track. The result of this coordination was that the dialogue was able to use a very broad definition of "economic issues" to create trade-offs between previously unconnected issues.

How Should Outcomes Be Valued in Strategic Conversations?

The first round of the S&ED in July 2009 was a relationship-building exercise. Given that it took place near the start of the Obama administration, with many senior officials still waiting for their appointments, there was little pressure for the dialogue to resolve any issues. The May 2010 meeting in Beijing, heralded by both sides as a success, produced a series of outcomes reflecting an impressive array of bilateral discussions.

While notable agreements were reached on innovation policies, increased cooperation on clean energy, and nuclear safety, both sides concluded privately that the most useful part of the dialogue was that representatives of both countries were able to spend time discussing a panoply of issues across the bilateral relationship. By the end of the meeting, each side had strengthened its relationship with and deepened its understanding of the other side's positions. China and the United States announced a series of outcomes in several documents crafted for the public.

The role of outcomes is a much-debated issue in strategic dialogues. Whenever a large number of top government officials gather, the media and people of both countries expect to see results. Such expectations can be counterproductive for a strategic dialogue. If officials spend all of their time preparing solutions to the “issues of the day,” the countries would not have time to do the strategic thinking and collaboration that the dialogue was created to achieve. The S&ED would, in fact, likely become a replacement for other deliverable-focused dialogues.

At the same time, a lack of outcomes risks making the S&ED just another opportunity for talking, and potentially one that recycles the same contentious issues year after year. In order to have an ongoing strategic dialogue, there needs to be a way to produce appropriate outcomes and to chart progress toward achieving them.

The S&ED is the only mechanism between the United States and China that operates at a sufficiently high level to serve as a platform for managing a wide-ranging set of issues across bureaucratic lines. Used effectively, the S&ED can provide an opportunity to overcome stove-piping and bureaucratic “turf” wars and address issues of national interest for each country by establishing cross-disciplinary initiatives, monitoring their progress, and eventually implementing them.

The assumption before the first SED in December 2006 was that no dialogue could survive without producing results that could be announced at the end of each round of meetings. Consequently, the SED succumbed to the pressure to produce immediate “deliverables,” and by SED II in May 2007, it was clear that the dialogue would not survive if it essentially replaced other dialogues by doing all of their work.

Through a series of conversations between Paulson, Wu, and other officials, the direction of the SED was modified and the level of the conversation was raised. The revised deliverables were to announce a combination of results from the six months of work since the last round of the SED, and to lay out a work plan in preparation for the next round of the SED. In effect, the SED became the venue not for negotiating and announcing deliverables, but for announcing results that had been, and would be, achieved.

While SED III in December 2007 was far more successful at managing the level of outcomes than the previous two rounds of meetings, the SED process never entirely escaped the pressure to produce answers to immediate problems. Sometimes it actually succeeded at developing such answers.

One of the SED II outcomes was an agreement to focus multiple agencies and ministries on improving product safety, to be led by the U.S. Department of Health and Human Services (HHS) and the General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ). It turned out to be a prescient assignment as the summer and fall of 2007 brought wave after wave of concerns in both the United States and China about product safety. HHS Secretary Michael Leavitt and AQSIQ Minister Li Changjiang responded to the urgency and produced a series of significant outcomes in time for SED III. The combination of high-level attention, a six-month firm deadline for results (the SED met every six months), and public concern over the issue motivated both sides to reach effective conclusions.

The S&ED has the opportunity to clearly define the type of results that it wants to achieve. With a year between each round of the dialogue, it will be critically important to have some outcomes from each round, if for no other reason than to ensure that progress in the discussion occurs rather than focusing only on the urgent issues of the day. To truly capture the power of the dialogue, at the end of each round both sides will need to establish a collaborative path of work for the period leading up to the next round of the dialogue.

Developing an Understanding

Designing a dialogue that works for both countries requires a deep understanding of how they operate. For the United States this means that it must understand, and build on, the forces and imperatives driving the Chinese people and the Chinese leadership. Americans often hear a tandem refrain: China is free-riding on the global system and thereby creating an uneven playing field, and that the only way to get China to change its course of action is through direct pressure and threats that, if carried out, would damage its export capability.

For a period of time, political and public pressure did appear to make a difference in China's actions. As a result, U.S. administrations often employ a combination of public shaming and playing "good cop, bad cop" with Congress, where the threat of anti-China legislation provides leverage to convince China to change policies.

The dynamics in China are changing, however, and require a far more nuanced approach. More recently, rising nationalism has encouraged Beijing to push back on the expectation that it will one day fit into the existing global system. Indeed, some Chinese do not believe they are free-riding on the system just because China does not do what the West says in a system that the West created.

The SED process emphasized the importance of listening. In preparing for the SED, both sides agreed that no speaker should have the floor for more than ten minutes at a time. The U.S. team was very concerned that the Chinese side would speak for a long time and effectively prevent conversation from occurring by reading prepared speeches.

Instead, the opposite occurred. Both sides found the formal presentations interesting. The Chinese presentation on China's development path was very different than what the U.S. officials had previously heard, and it helped to spur conversation. At the same time, the Chinese side was very impressed with Commerce Secretary Carlos Gutierrez's discussion of trade, and both sides listened carefully to Federal Reserve Chairman Ben Bernanke's explanation of why a country needs strong capital markets to succeed economically. Listening to the other side became one of the hallmarks of the dialogue.

What both sides learned through these exchanges is that areas of mutual interest and areas of conflict are best approached when each one recognizes and understands the other. For the U.S. delegation, this meant understanding the enormous challenges the Chinese government is attempting to tackle, and promoting shared interests or changes in ways that advance the Chinese interest in domestic stability.

One must understand the other side before one can know which levers will help them move. At the same time, one has to help the other side create space to move those levers. For an American audience used to hammering China to change its policies, this meant understanding that what the Chinese side needed

to demonstrate to its own constituents was that both the dialogue and the concessions China might make were in its long-term benefit.

This, of course, is true for the Chinese side as well. Given how dependent the United States is on politics and electoral trends, it is very difficult for an outsider to predict future U.S. actions. From Beijing, the layered complexity of American democracy is perceived as not only confusing, but also unpredictable. Few in Beijing understand and even fewer are comfortable with the combination of change and consistency that characterizes the U.S. system. A strategic dialogue helps top Chinese leaders appreciate what is going on in the United States, and then prioritize bilateral issues.

Figuring out how to present a bilateral agenda in a way that the other country's officials understand is one of the key goals of a strategic dialogue. Increasing understanding of the United States or China is helpful only if it also helps mitigate tensions.

Perhaps the best example of this is in the handling of the value of the Chinese currency, the RMB. Getting the RMB to appreciate faster was at the top of the agenda when Paulson began to set up the SED. However, rather than starting his discussions with Wu by demanding that China appreciate the RMB, Paulson chose instead to explain to her and to the other officials that the RMB was a symbolic issue in Washington, representing Beijing's willingness to continue its reform process.

Paulson's approach—which his successor has adopted—focused on how the appreciation of the RMB was part of China's process to rebalance its economic growth and spread economic benefits across the country, which was a key objective for President Hu and Premier Wen. By recasting the issue as one of mutual benefit, Paulson was able to engage in a conversation about the issues underlying the currency rather than continuing the political tug of war. The Chinese side later adopted a similar strategy for discussing another politically symbolic issue, export controls.

Process Over Substance

One of the lessons of the SED is that while having a strategic conversation seems easy, it is not a natural act. The temptation is always for both sides to diverge into a conversation about current affairs rather than to make the effort to think strategically. This is especially true for the United States and China, which have very different understandings of what is actually meant by “strategic issues.”

Chinese culture puts a high value on relationships and, as a result, most Chinese officials start their list of strategic issues with process modalities such as building strategic trust and mutual confidence. Conversely, American officials focus on discernible issues that will impact them during their political tenure, such as dealing with North Korea or Iran.

Strategic thinking requires both an understanding of the current dynamics and the ability to project how they will change over the long term. This is much harder than just coming up with a solution to a current problem. Accordingly, a U.S.–China strategic dialogue requires a process that enables people of different cultures to think together over the long term. This can only be done if the process allows the participants to address both the modalities of the relationship and the long-term issues: for example, sharing views of the global economic architecture and finding cooperative opportunities to achieve long-term stability.

Yet a discussion about the long-term perspective on the Persian Gulf, or the trade regime ten years from now, is difficult when the participants are pressured by short-term interests. Each round of the dialogue must address immediately pressing issues in order to take the fire out of them before focusing on the longer-term issues.

Key Elements of a Strategic Dialogue

In order for the S&ED to fulfill its promise to manage the bilateral relationship, the dialogue must be structured in a way that develops relationships, ensures that progress is tracked, and enables the participants to satisfy immediate political needs while creating the space to engage in a long-term dialogue. While issue-specific dialogues are fairly simple to design, a strategic dialogue is quite complex. Incorporating the following elements will increase the S&ED's effectiveness:

1. Appropriate level and participation. The American and Chinese bureaucracies do not match up well. U.S. cabinet secretaries and Chinese ministers are not equal in authority and access to their presidents, and the United States does not have an equivalent to the vice premier level. As a result, the pairing from the SED and the current S&ED is slightly awkward. Both sides have made it work by designating the leaders of the dialogue as special representatives of their presidents, a title that raises their stature and overcomes the difficulty of identifying direct bureaucratic peers.

In addition, a critical part of the dialogue is a meeting with the president of the host country. Through this arrangement, the U.S. side has regular and welcome access to President Hu and Premier Wen to talk about the most important economic and strategic issues in the relationship, and the Chinese side has access to President Obama. Being able to speak directly to the national leaders is an important part of the structure, as it allows the participants to explain their national perspectives directly to the top of the other side's government. There is rarely time for these details in regular presidential meetings.

The dialogue itself requires active participation at the cabinet level. The interdisciplinary approach allows all of the ministers and cabinet officials to hear the arguments from each side. As a result, secretaries and ministers are able to make their case to a broad group of decision makers simultaneously, including ones they would rarely have access to during routine visits.

For Chinese officials, this process means they can reach a broad American audience all at once. For U.S. officials, this allows them to work within China's decision-making system. While decisions are officially made at the top by President Hu and Premier Wen, in reality they are made through a consensus-building process. Although the Chinese government has significant silos, all key stakeholders must share in and support any major decision.

For example, a small group of State Department and Ministry of Foreign Affairs officials can together reach conclusions on "Iranian nuclear issues." If, however, the issue is a strategic discussion of aligning long-term visions for engaging with the Middle East, then a much broader group of higher-level officials must be present—top officials in energy, trade, terrorism, economic development, security, and foreign affairs all have a stake. Thus, while small group discussions on specific topics are valuable tools for managing the daily operations of the

bilateral relationship, they should not be confused with a strategic discussion that takes place at a higher level and across a broader range of disciplines.

Having a truly interdisciplinary dialogue requires the ability to overcome the tendency of agencies and ministries to protect their issue “turf.” Both the United States and China have a naturally high level of competition among agencies and find it easier to manage conversations by limiting participants.

However, being able to simultaneously address all heads of agencies helps overcome institutional bureaucracy on both sides and can be extremely effective in not only building relationships between previously unfamiliar officials, but also creating an understanding of how seemingly unrelated issues affect multiple disciplines. Consequently, to make this cross-disciplinary approach work, each round of the dialogue must include time for secretaries and ministers to make their points, and also for unscripted plenary discussions.

For example, at SED IV in December 2008, the United States and China agreed that it would be important to have offices of the Food and Drug Agency (FDA) in China support the development of China’s product safety efforts. However, when China requested the ability to place similar officers in the United States, a firestorm broke out among the U.S. agencies because nothing like this had been done before. It took considerable coordination and policy discussions among the top officials at four U.S. agencies and their counterpart Chinese agencies to resolve the issue and establish the modalities for the officers to do their work protecting consumers in both countries.

At SED III, a bottom-up initiative worked. The former Chinese State Environmental Protection Agency (SEPA) had been working with the U.S. Environmental Protection Agency (EPA) for years to establish an emissions trading program on a local level for sulfur dioxide, a major component of air pollution, but had been unable to coordinate across their bureaucracy to move to a national program. Through the SED process, the U.S. side was able to assist SEPA in elevating the issue by explaining the benefits of the trading mechanism to multiple Chinese ministers. At the end of that round of the dialogue, the Chinese government announced that it was going to expand the trading program nationally, and the United States announced that it would provide technical assistance.

Finally, keeping the level of participation at the secretary and minister rank increases the potential that agreements are endorsed by the bureaucracy of each agency or ministry. Under the umbrella of the S&ED, multiple agencies, ministries, and heads can be held accountable for ensuring that progress is made on a particular issue.

This is important because an agency or ministry can make it difficult to move forward with ideas it disagrees with even if they are set forth by the head of state—both because heads of state do not sign agreements in the level of detail that ministers can and because bureaucrats in any system can derail or greatly slow any initiative they do not support. In contrast, when the minister is

responsible and required to report up the chain of leadership, the incentive to complete and implement the agreement significantly increases.

2. Clear Communication. Effective lines of communication among the key actors are critical. While Wang, Clinton, Dai, and Geithner lead the dialogue, they all have many other responsibilities and cannot spend the necessary hours helping prepare for each round and ensuring that all parties stay on track in the interim. Each side needs to know who, in addition to the formal heads of the process, can speak for the other government.

In the SED, Paulson led the initiative on the U.S. side and clearly designated a staff representative² to speak for him and therefore for the U.S. government. Paulson's representative was in constant contact with her Chinese counterpart, speaking and otherwise communicating at least twice a day. These intermediaries led the development of the agenda for each round of the SED and were responsible for coordinating the dialogue. They were also responsible for ensuring that each SED delivered a set of outcomes that combined the current headlines with the strategic objectives of that round of the dialogue.

This direct connection also became very important when the financial crisis occurred. Wang knew that he could connect immediately with Paulson through his intermediary at any point—day or night—and vice versa. Throughout the fall of 2008, when the economic crisis was at its worst, this communication line was used numerous times. At one point, when tension was rising, Paulson was able to connect with Wang in less than two hours at 7 a.m. Beijing time (an impressive amount of time when a call usually took a week to arrange).

3. Strong Relationships. Negotiators know that it is much harder to say “no” to someone they know well and easier to explore nontraditional solutions with people with whom they frequently work. Just as importantly, when a friend says “no,” it is easier to learn why. For these reasons, establishing relationships between government officials who manage contentious issues is important.

At the start of the SED, Wu emphasized the importance of developing “strategic trust.” This concept was based on several components, but it essentially underlined the importance of creating a relationship between counterparts who could see issues with a long-term perspective across geographic borders and multiple disciplines.

In order to do this, both sides needed to be willing to put the time into building a relationship based on shared experiences and shared interests. Wu's successor, Vice Premier Wang, expanded the concept to include the term “mutual,” suggesting that strategic trust must also contain mutual benefits to ensure that it remains strategic and constantly evolving.

Building this kind of trust is not easy. It takes time, patience, a sense of humor, and a willingness to see counterparts as people and not monoliths. It also requires travel and getting to know one another personally. Nothing can replace face-to-face meetings.

Between meetings of the SED, U.S. and Chinese staff traveled back and forth between Washington and Beijing every month, including spending several days every six months together to plan for the next round of the dialogue. Managers of the SED process facilitated face-to-face meetings, telephone calls, and text messaging between counterpart agencies as well as with previously uninvolved agencies.

Due to the six-month schedule of the SED, the exchanges were intense as both sides worked hard to achieve the timelines set out by the previous SED. This meant that by the time the dialogue met, the staff of all agencies knew each other well and were able to support their principals in developing their own relationships.

The SED taught the United States that working in China requires a heavy up-front commitment of time and resources. Once the relationships were established, however, the commitment paid off significantly, often in unexpected ways.

For Paulson, this was clear during the handling of the financial crisis. The close working relationship that was visible to the world was the clear result of the time invested in building relationships between both the dialogue leaders and their staff. Based on Paulson's success, Clinton and Geithner have embraced this concept and the S&ED has placed a priority on building personal relationships between the senior leadership, including through private dinners, meetings at airports, and regular phone calls.

The same emphasis must be placed on building close relationships between all officials involved—at all levels. While ensuring that the four leads have strong relationships is important, it is just as important that the other cabinet secretaries and ministers develop strong relationships. As conveners of the dialogue, one of the central responsibilities that Wang, Clinton, Dai, and Geithner have is to build strategic trust throughout their delegations.

4. Common Agenda. The agenda for the dialogue is in itself an agreement and a determining factor for how successful the discussions will be. While it is possible to declare that all issues are open for discussion and claim political credit for unilaterally raising controversial issues, such an approach rarely achieves real communication and progress and can cause great harm to relationships.

Conversely, the process of negotiating an agenda can build the bilateral relationship. Jointly drafting an agenda is an important process for both sides as it provides insights into how each side perceives the issues, where the fault lines exist, and how the parties can best approach difficult topics.

For example, at the start of the SED, the Chinese side refused to include any topic that was not strictly bilateral. By SED V, the agenda included such politically complex issues as climate change and the Doha round of trade negotiations. The Chinese suggested that the agenda for SED V also include a

new section on bilateral cooperation in multilateral economic organizations.

While an agenda is often simply a guide for American officials, it is the basis of all Chinese preparations for the dialogue. Each official is given responsibility for a part of the discussion, and prepares his or her interventions based on that responsibility. As a result, the process literally shapes the way that the Chinese interlocutors are prepared to engage.

While many Chinese officials are comfortable engaging on a range of topics and can manage surprises, many others are not as comfortable taking liberties on issues that they are not prepared to discuss. Therefore, divergence from the set agenda can lead to frustrating discussions from the perspective of American officials. However, respecting and following a commonly-developed agenda can be an important step toward reaching agreements.

5. Utilization of Shortcuts. Both sides need to understand how to effectively use the structure of the dialogue. High-level dialogues create a shortcut for both sides to avoid normal layers of bureaucracy. Bureaucratic systems are designed to protect officials and governments—not to innovate. For issues to be realized, then, they often need to be sufficiently non-controversial so that no one kills them. By the time an idea emerges for discussion between top leaders, it has found champions and proven itself able to get past the press liaisons, lawyers, and a barrage of politically adept officials.

While this process is an effective way to protect bureaucratic equities, it also prevents innovative solutions to complex problems. This is especially true of solutions that require multiple agencies to work together.

The S&ED has bureaucratic shortcuts built into its structure that allow its top leaders to explore cross-cutting issues with the most strategic minds in both governments. For example, in the Economic Track, Executive Secretary and Senior Coordinator for China Affairs and the Strategic and Economic Dialogue at the Treasury Department David Loevinger connects directly to Geithner, who connects to Wang. Loevinger also connects to the Chinese lead for the economic track, Vice Minister of Finance Zhu Guangyao, who also connects to Wang. This means more in the Chinese system than in the U.S. system, as Wang has authority over multiple ministries and topics, but Geithner can also be effective at working issues through the U.S. system.

The best example for how the shortcut worked in the SED was the creation of the Ten Year Cooperative Framework on Energy and Environment (TYF). The idea emerged from a decision by Paulson and Wu to develop a concrete, important project over the long term. Paulson's staff came up with the idea of a cooperative framework on energy and the environment based on a series of discussions with non-government experts and thinkers. Paulson then proposed the idea directly to Wu on a phone call. She and her staff worked it through the Chinese system and determined the best Chinese counterpart organization, the National Development and Reform Commission.

The TYF, which prioritizes issues for the two countries to collaborate on and ensures top-level attention (Wen has been an active supporter of its work), was established in December 2007, with the cooperative framework signed in June 2008, and follow-on agreements in December 2008 and July 2009. The effort has effectively crossed from the Bush administration to the Obama administration and continues to this day. In fact, progress under the TYF platform was a key outcome of the recent S&ED.

6. Priorities and Issue Bundling. Each side must have a process for prioritizing issues. As much as Washington benefits from the Chinese side prioritizing its requests, the United States has also benefited from a similar prioritization of its own interests. When the SED started, both sides realized there were more than 30 different economic dialogues ongoing with China. Each dialogue had its own specific topic and constituency.

In order to coordinate across all of these dialogues and keep all of the agencies engaged in the SED process, the National Security Council convened interagency meetings at least once every quarter to set priorities and ensure that the SED was achieving the agreed-upon objectives. Over time, the S&ED will also need to establish a coordination process to ensure that perspectives of all of the agencies are incorporated into the planning process.

Knowing each other's interests allows the two sides to prescribe a work plan that can then be carried out through the appropriate ongoing dialogue, such as the Joint Commission on Commerce and Trade (JCCT). These dialogues are critical for managing the day-to-day relationship and for creating visible progress in the relationship.

Without these discussions, leaders of the S&ED cannot spend time on the longer-term interdisciplinary issues that characterize the strategic relationship. In addition, having these dialogues do that actual work of the relationship allows each agency and ministry to retain ownership of their dialogues, set the agenda for that work through the S&ED process, and claim credit for its successes.

Once the agenda is set, issues can be packaged together to create trade-offs that would not normally be possible due to the division of labor between agencies and ministries. A good example is market access. Many American businesses value access to China's markets for innovative goods, yet China appears to be putting in place a series of protectionist policies that could dramatically limit U.S. market access. From the Chinese perspective, the United States continues to raise political barriers to Chinese investment in the United States, while keeping the most important technologies out of China through export controls.

A comprehensive "strategic" approach to these issues could be one that combines several constituent parts into a single overall initiative under the S&ED. While political constraints would make it practically impossible to work these issues one by one, combined together with other related matters they could strike an overall balance of trade-offs (some favoring the United States and others favoring China). The bundling process complicates the issues by bringing

multiple agencies and ministries together, but in the process of doing so it creates a new set of potentially offsetting benefits.

7. Public Tracking. Joint tracking of the dialogue's progress ensures that both sides stay committed to the agreements and hold each other accountable. The Joint Fact Sheet was an innovation of the SED that has continued through the S&ED. It is a jointly written catalog of the outcomes of each round of the dialogue in a public document that ensures that each side gets credit for work accomplished. It also includes a record of the work concluded and an agenda of future tasks.

The Joint Fact Sheet would not have been possible without the trust developed between the two sides since the beginning of the dialogues. While hesitant at first, China quickly saw that the Joint Fact Sheet allowed it to hold the United States responsible for its commitments to China. The impact has been significant—knowing that there is recourse and that the United States seemed to be renegeing on a promise enabled China to increase its own commitments.

Suddenly, the dialogue was not just about the United States pressing China to do more and to move faster. It became more about what the countries could do together that would be mutually beneficial. The dialogue was able to prove that it could make a difference.

One of the clearest examples of this is the group tourism agreement that was signed in December 2007. The agreement facilitates the process for group tours to enter the United States, providing the opportunity for many more Chinese citizens to visit. While this seems like an obvious benefit for the United States during a time when tourist dollars are at a premium, the proposal had been stuck in its bureaucracy over immigration concerns. Through the SED process, the discussion was raised to the secretary level and able to move forward.

While many of the issues discussed on the strategic side of the S&ED (as opposed to the economic track) are too sensitive for public tracking, there still needs to be an accounting for each round that allows the leadership to connect the discussions to a broader strategic agenda. Without a tracking mechanism and the associated agenda it prescribes, the dialogue risks being reduced to an annual bilateral stock-taking of foreign affairs issues.

8. No Surprises. A dialogue is not a negotiation, and the strategies for engagement are entirely different. Through the SED, participants learned that surprises in a dialogue are not helpful or constructive. At SED I, both the Chinese and U.S. sides held back on deliverables until just before the opening ceremony, leading to confusion and frustration.

Following that round, both sides agreed to the principle of “no surprises.” The result was groundbreaking. Communication increased dramatically and staff on both sides reached out to make sure that their counterparts knew what issues were going to be raised, even in meetings at the presidential level. Knowing that the other side was not going to blindsides them allowed staffs to think more

creatively about how to present issues to their bosses.

The results were improved conversations between leaders, better relationships between staff—even at the most senior levels—and an atmosphere of productivity. While major agreements remained complicated to achieve, the sharing of information allowed each side to have a better understanding of why an issue could not be resolved and provided more effective avenues for addressing problems.

Even with strict adherence to this principle, there will continue to be misunderstandings. Despite their similarities, Americans and Chinese have a disconcerting ability to misunderstand each other. The ability to work through those misunderstandings and isolate the issues on which they disagree is critical to establishing trust. This can only be accomplished through dialogue, and the dialogue has to be at the right level and on the basis of equals.

At SED II, the parties announced the conclusion of a bilateral air services agreement. At the working level, the negotiations had been stalled for some time as China focused on developing its own domestic air fleet. The American negotiators were frustrated and angry because they not only felt badly treated by the Chinese negotiators, but also that the Chinese team had no intention of reaching a deal and was not negotiating in good faith.

The Chinese negotiators certainly shared their frustration and dug in on their position. Rather than waiting for the issue to arise at the SED, staff arranged for several phone calls on the issue prior to the dialogue. During these conversations, Paulson and Wu were able to spell out each side's interests and discuss the issue from a broader strategic perspective. Through these conversations, it became clear that both the United States and China prioritized exchanging people and creating jobs, and could agree on the air services agreement as one way to turn that strategic objective into a reality.

It also became clear that China needed time to examine its policy without public pressure from the United States. The increased communication paid off. The daily non-stop flight between Washington and Beijing is just one of the new routes that came out of the Air Services agreement.

9. Innovation. While there are many long-standing issues between the United States and China, there are also new ways to address them. Continuing to dwell on the same issues in the same ways will not improve the odds of success.

For example, China has been telling the United States for years that the solution to the import imbalance is for the United States to drop its export restrictions. The dance back and forth on the issue is well-defined and almost anyone at five or six ministries and agencies in either country can accurately reenact the script.

Repeating arguments at the S&ED will not help trade imbalances. Rather, something new is needed, and the role of the dialogue managers is to make sure that their agencies do not raise the issue until new and creative solutions emerge.

Each side has the responsibility for ensuring that it (and all of its constituent agencies and ministries) works productively with the other. By self-policing and insisting on a creative approach to policy solutions, the S&ED will become a source of innovation.

One way to do this is to take advantage of current priorities to provide new incentives for both sides. China and the United States are serious about being leaders in the green technology revolution and doing so requires the right combination of domestic demand, manufacturing capability, innovative capacity, and access to critical international markets. Combining each country's efforts to become leaders in green technology can result in a new set of opportunities to address market access.

One option would be for the S&ED to launch efforts to bundle multiple market access issues in the field of green technology to create a special "green channel" that speeds the best and cheapest technology to the places that need it most. This is exactly the type of challenge that the S&ED was designed to tackle.

Conclusion

The S&ED has now assumed the mantle of steering the U.S.–China strategic relationship. Many aspects of the current dialogue still follow the SED’s design, but key structural changes and the expansion of issues make it harder than ever to ensure that it remains strategic.

While cumbersome, the S&ED’s structure can operate effectively, but it needs to adhere to three guiding principles:

1. Set up clear lines of communication and establish a strong collaborative process within the joint S&ED management team.
2. Recognize the difference between the bilateral relationship and strategic relationship and do not allow one to replace the other.
3. Use the unique qualities of the strategic dialogue to leverage policy innovation and push forward each country’s interests.

The United States and China learned from the SED and first two rounds of the S&ED that working closely together can produce significant results in the short term. The question now is whether sustaining the high level of engagement over the medium term is worth the political and bureaucratic effort. The S&ED mechanism is uniquely positioned to build the relationship, but to make it work, both sides must work harder, devote more time and staff, and empower the dialogue by employing the central coordination capability of the State Council and the National Security Council to ensure that the two governments are fully behind the effort.

Maintaining a strategic relationship is difficult. It requires leadership on both sides and a commitment to the relationship that is substantively different than other bilateral relationships for each country. Without a concerted effort to create the space for the broad strategic discussions needed, the S&ED will become a convenient venue to manage the daily work of the bilateral relationship, and an important opportunity will be lost.

At the first round of the SED, staff joked that they felt as though they were arranging a wedding ceremony. There was the public opening session; the dialogue itself, which was going to evolve based on the personalities of the participants; the dinner and seating charts to sort, with all the same complications of “who would sit next to whom at which table”; last minute shuttling between the two sides to resolve some unexpected complications; and, at last, the big announcement.

At the final press conference, Paulson and Wu stood next to each other, he at least a foot taller than she, and announced that everything had gone well, the relationship was durable, and the two countries would continue down the path of cooperation. Like most weddings, everyone had been sure that it would come together, but the process of getting there was tense and full of doubts.

Now, four years later, the relationship depends more than ever before on the best efforts of both sides to keep it moving forward. The future of the S&ED will require each side to understand the needs of the other, communicate its own needs, and build upon mutually beneficial achievements. Without a positive relationship, the tough issues will be impossible to manage. And divorce is not really an option.

Notes

¹ China has stated that this does not include “core issues” such as Taiwan, Tibet, and the South China Seas. Also, despite high-level attendance by U.S. military officials, it is not clear that China sees the S&ED as a path through which to deal with military or human rights issues. The United States asserts the right to raise any issue in the context of the dialogue, but incorporation of any issue requires agreement from both sides.

² The author served in this role.

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