



BULLETIN

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The Prospects for Sino–American Relations

by Justyna Szczudlik

The global crisis, the growing mutual economic dependence and China's important role in solving international security problems have enhanced the PRC's position in relations with the USA. In the coming months, as the Chinese authorities probe the intentions of the new U.S. administration, China is likely to emphasize its willingness to cooperate, particularly on such issues as countering the economic crisis, the North Korea problem and climate change.

China takes a positive view of its relations with the USA during President George W. Bush's second term, noting that its growing international significance did not raise objections from the U.S. The victory of Barack Obama was received in China with a hope that the USA would continue its previous policy and that changes announced during the electoral campaign, such as increased support for Taiwan's international activity or more emphasis on human rights and on the situation in Tibet, would not materialize. The significance of China–U.S. relations is evidenced by the fact that Secretary of State Hilary Clinton made her first foreign trip to Asia—including China, where she conducted talks on such matters as the economic crisis, non-proliferation of weapons of mass destruction (in particular in the context of the North Korean situation) and preventing climate change. In March the Chinese Foreign Minister Yang Jiechi visited Washington to prepare a meeting between Barack Obama and Hu Jintao during the April G20 summit in London. The first meeting of the two leaders took place on 1 April and was devoted in whole to economic matters—for the most part to crisis-fighting efforts and to the reform of the international financial system (including the PRC's stronger influence on co-shaping the latter in the future). It was tentatively agreed that the first after the U.S. presidential election meeting of the China–U.S. Strategic Economic Dialogue initiated in 2006 would be held still this year. President Obama accepted also an invitation to visit China in the second half of this year. Significantly, the human rights issue was not addressed during these talks.

Economy. The global crisis has prompted the PRC and the USA to tighten their cooperation. China has a stake in the good health of the U.S. economy for the USA is the second largest export market for Chinese goods (China's January–October 2008 exports to the USA totaled close to US\$217bn and were second only to exports to the EU totaled about US\$246bn). The country has been worrying about protectionism, which could restrict its access to this market. At the same time, China is the largest creditor of the USA. It has US\$2,000bn worth of foreign currency reserves, the bulk denominated in the U.S. currency. It is estimated to have invested about US\$1,000bn in U.S. securities. The central bank of the PRC confirmed that this investment strategy had indeed been followed. The Chinese authorities took a positive attitude towards Secretary Clinton's appeal for increased purchases of U.S. bonds, but Prime Minister Wen Jiabao, worried about the impact of this downturn on Chinese investment and likely consequences of the American plan to increase public debt, made an unprecedented statement, calling on the USA to guarantee the security of assets. Furthermore, China proposed that the dollar be replaced as the main reserve currency by a "global currency" based on SDR (an accounting unit used by the IMF)—a scheme hardly acceptable to the USA in view of soaring costs of financing the budget deficit and the current account deficit.

For all China's muscle-flexing as the chief creditor of the USA, a deterioration of bilateral cooperation is unlikely given the deep mutual dependence of the two countries' economies. The USA has to

raise finance for its economic stimulus plan from external sources and China needs the American sales market. On the other hand, a large sell-off by China of U.S. securities would send these assets and the exchange rate of the dollar plummeting. This would cause appreciation of the yuan, to the detriment of Chinese exports.

North Korea. China wants cooperation to continue within the framework of six-party talks on denuclearization of North Korea. The USA appreciates the dialogue with the DPRK, established through China's good offices, which led to the shut-down, in July 2007, of the Yongbyon reactor and to the demolition of the reactor's cooling tower in June 2008. These developments persuaded the United States to remove North Korea, in October 2008, from its list of terrorism-supporting states. Yet failure of the round of six-party talks in December 2008 (the DPRK did not agree to international inspection of its nuclear facilities) and fears that Korea could be preparing to test long-range missiles capable of carrying nuclear warheads and hitting targets in the USA, have spurred the PRC and the USA into more vigorous action. China announced that it wanted to bring about a new round of negotiations as soon as possible. Apart from regional security considerations, China's willingness to cooperate is meant to be a sign of its good will towards the USA. The question of image is also relevant—the PRC is anxious to come across as a responsible partner which cares about international order. It wants to initiate and control disarmament talks as a way of strengthening its position in Asia at the expense of the USA. On the other hand, it does not want the political system of the DPRK to collapse because it fears an inflow of refugees and a growth of the USA's military significance in Asia.

Climate Issues. Environmental protection and energy are going to figure prominently in mutual relations, particularly in the context of climate change prevention. China and the USA are the world's largest emitters of greenhouse gases. The U.S. has not ratified the Kyoto Protocol and China was excluded from the emission reduction requirements as a developing country. Both countries have been under international pressure for a commitment to reduce their greenhouse gas emissions. Cooperation is a must, particularly now that international negotiations are in progress on the contents of a new climate agreement scheduled to be completed in December 2009. China has signaled its preference for keeping the Kyoto arrangements in effect and it has implied that the most developed countries should bear the bulk of responsibility for emissions reduction. The PRC's principal argument against over-ambitious emission reduction commitments is that it needs to catch up on development. Unless the two countries reach an understanding in the matter of emissions reduction commitments, the negotiations on a global agreement are likely to fail. Both the USA and China realize that responsibility for the outcome of negotiations will be laid chiefly at their door. If the U.S. delivers on its promises of a more restrictive emission policy and agrees to be bound by an international agreement, then China is also likely to be more inclined to compromise. The PRC counts, among other things, on advantageous technology transfer from the USA and from European states to help improve its production efficiency and emissions-reducing capacity.

Conclusions. Relations with the United States are one of more important directions of China's foreign policy. The PRC is aware of its growing significance in mutual relations, just as it is aware that U.S.-declared cooperation seeks to enmesh China in a web of mutual ties meant to minimize the risk of confrontation while arresting the growth of its significance.

We are going to see more and more instances of China taking advantage of its position to weaken that of the USA. China is already demonstrating its clout as it demands asset security guarantees, calls for depositing the dollar as the reserve currency, or requests a financial institutions reform. It has also launched initiatives which weaken the United States' position in Africa (aid to and investment in African countries) or in Central Asia (activity on the forum of the Shanghai Cooperation Organization). Moreover, the growth of China's spending on the armed forces is viewed with apprehension in the USA. Yet in the face of this global crisis and interdependence of the two economies this will not lead directly to souring mutual relations. For China, it is also important that such matters as human rights issues or situation in Tibet, formerly strongly emphasized by the USA, will probably come to play second fiddle.