The last U.S.-China Strategic and Economic Dialogue (S&ED) of the Obama administration is now behind us, raising a number of questions as we look ahead to next year: What purpose does this dialogue serve in the U.S.-China relationship? Is it worth continuing, should it be scrapped, or could it be modified to increase its effectiveness? My bottom line: the S&ED is not perfect, but the solution involves targeted adjustments, not abandonment of a process that serves U.S. interests. This commentary explains why, with a focus on the economic side of the ledger.

The S&ED was created in 2009, by adding a new “strategic” track covering a range of global, regional, and bilateral political and security issues to the existing high-level “strategic economic dialogue” (SED), which was initiated at the behest of Treasury Secretary Henry Paulson when he joined the George W. Bush administration in 2006. The original concept of the SED was affirmatively not to seek “immediate solutions to the issues of the day” but instead to “discuss long-term strategic challenges.” However, almost immediate bipartisan congressional complaints about China’s inaction on trade and currency matters quickly created pressure to shift the SED to become a forum for both achieving immediate progress on issues and fostering broader discussions of the longer-term strategic directions the two countries’ economies needed to take. This dual focus has continued with the Obama-era S&ED.

Like its SED predecessor, the S&ED incorporates several helpful features: first, it operates with the direct imprimatur and supervision of both countries’ presidents. This ensures that the presidents are briefed on all the top issues being raised and can make decisions based on the broadest interests of the country, rather than the interests of one ministry or department determining the outcome. This is particularly important in China, where a culture of not wanting to tell one’s leader bad news can limit communication regarding problems. This approach also neutralizes the issue of some Chinese officials operating under the assumption that they never go wrong by opposing a U.S. request to change a policy, while an effort to...
compromise or find a solution to a U.S. grievance could be dangerous. Instead, this presidential connection, and the prestigious, public nature of the event, makes it important for the meeting to be a success, which creates leverage for results. In fact, in the Xi Jinping era, this presidential connection may be critical to the prospects for achieving any significant gains, given Xi’s consolidation of power and the more limited scope for initiative by any officials beneath him. At least in this context, the Chinese heads of delegation presumably have to communicate with Xi and get his approval for agreements, even if Chinese economic and strategic policy development now seems to occur primarily through Communist Party bodies rather than the government ministries the Chinese officials supervise.

Second, the presidents specially designate the leads for the dialogues (one each for the strategic track and the economic track). This elevates the Chinese representatives, giving them more power over the various ministries and other Chinese government bodies than they normally would have. In China, it can be extraordinarily difficult to deal effectively with issues that cross ministries or that involve ministries under the supervision of different vice premiers. The special authority given to the Chinese S&ED representatives helps counter the stovepiping often encountered in China. This seems to have borne fruit on a number of occasions: the S&ED has fostered progress on cross-cutting issues, such as innovation policy and intellectual property theft, the treatment of state-owned enterprises, excess capacity, the expansion of the World Trade Organization’s Information Technology Agreement, and China’s agreement to core principles of a high-quality bilateral investment treaty.

Third, the two countries have been committed to scheduling and holding the S&ED every year. This creates certainty that the United States and China will engage in serious bilateral economic and strategic dialogue on a regular basis, enhancing the stability of the relationship. This certainty of engagement is far from a foregone conclusion with China. As the United States and other major Chinese trading partners know, China can make it very difficult to even schedule a meeting, much less bring high-level people to the table to work hard on solving a problem, if it is an unpleasant problem they do not want to face.

The S&ED is by no means cost free, however. The effort expended to hold the S&ED includes communications well ahead of the meeting.

In the News

“As long as raw fundraising and industrial policy goals dominate Beijing’s economy policy, it will be almost impossible to have genuinely market-oriented stock markets in China.”
—Scott Kennedy in the South China Morning Post, “MSCI rejection shows China’s market credibility still in question”

“Such sudden, unabashed references to Xi’s dominance in the leadership suggest he finally has turned the page on crushing the cabal of senior officials who opposed his ascension and remains a man in a hurry when it comes to fully consolidating his political power.”
—Christopher K. Johnson in the New York Times, “Xi Jinping Assuming New Status as China’s ‘Core’ Leader”

“Xi and Li may disagree over specific policies, but their differences are minor in the grand scheme of things and the result of political jockeying, not principle.”
—Scott Kennedy in the Wall Street Journal, “Discord Between China’s Top Two Leaders Spills Into the Open”

“The PLA’s political clout has taken a severe hit in the face of a comprehensive retooling of its force structure and Xi’s anti-graft crackdown. The noises they are making suggest they may be looking to the South China Sea for redemption.”
—Christopher K. Johnson in the Financial Times, “Xi’s China: Command and control”
among interagency expert staff, high-level officials, and their counterparts on a range of issues, based on the understanding that progress in an area could be reflected in the S&ED outcomes statement issued at the conclusion of the formal meetings. The S&ED meetings themselves require a significant time commitment from multiple U.S. cabinet members and other senior officials—up to two days in formal meetings when the S&ED is held in the United States and up to five days, between travel and meetings, when the S&ED is held in China. China puts significant stock in creating an august occasion with many top officials gathered together, as a means of showing respect for the countries’ relationship and for the leaders who at least symbolically preside over it.

From the U.S. perspective, a presidentially sponsored, high-level, cross-cutting dialogue merits the presence of many top officials—if the dialogue is meaningful and the meeting generates reasonable progress on enough significant issues. Some years, the S&ED outcomes statements reflect important progress on issues of concern. For example, in 2013, China agreed for the first time to embrace significant disciplines in the investment treaty negotiations underway with the United States. In 2015, China agreed for the first time not to intervene in exchange markets except under very limited conditions.

However, other years, the outcomes statements indicate no visible progress has been made. For example, ahead of the 2016 S&ED, Treasury Under Secretary Nathan Sheets indicated that increased regulatory transparency, competition law, and avoidance of unnecessarily broad national security rules were key topics for the S&ED this year. However, the 2016 outcomes statement contained no mention of national security rules or competition law, and it reflected only a “reaffirmation” of regulatory transparency commitments China had made years before, which the 2014 S&ED outcomes statement had already noted were part of Chinese law.

Of course, the inconsistent level of impressive visible outcomes does not necessarily mean that no progress has resulted from the dialogue. Climate change was a substantial topic for the S&ED for several years without remarkable outcomes, yet these conversations likely contributed to the ultimate agreement between Presidents Obama and Xi prior to the Paris climate talks. Educating Chinese leaders about a concern also at least ensures that they understand the U.S. perspective on a particular
policy area, rather than operating blindly. However, if no changes ensue over many years of dialogue in a particular area, it may be hard for a U.S. cabinet member to muster enthusiasm for continuing to participate. Interestingly, the secretary of agriculture attended the first S&ED but has sent deputies to the last three years’ sessions.

U.S. cabinet members also may feel frustrated by the dialogue structure, given the differences in U.S. and Chinese leadership institutions. The Chinese traditionally pair U.S. cabinet members with Chinese ministers as their counterparts. However, Chinese ministers have substantially less power than cabinet members, since the ministers report to vice premiers, who report to the premier and then to the president. In the U.S. system, of course, the cabinet reports directly to the president. A U.S. cabinet member is fully empowered to make a deal with another country in an area within his or her competence, but on important issues, a Chinese minister may often be in the position of holding the line unless and until a higher leader authorizes a compromise. The S&ED offers the Treasury and State Department secretaries opportunities to interact as equals with presidentially empowered Chinese counterparts who do have significant power, but China does not normally offer this opportunity to the other cabinet members without status as “heads” of the U.S. delegation.

Some outsiders also question the scope of the S&ED. Focusing on the economic track here, the outcomes statement seems lengthy, leading to the question, is the S&ED no better than a form of policy “speed dating” across every issue of the moment? Would a tighter focus on a few key issues lead to better results? Others respond by pointing out that the U.S.-China relationship is a huge one, with many facets, so even a disciplined approach to choosing the topics of interest will necessarily engender a number of issues—and both China and the United States will tee up separate concerns. Furthermore, at the beginning of the S&ED dialogue—well ahead of the final, formal meeting—neither side knows where progress may be possible, so it is useful to explore a number of topics. Limiting the topics too narrowly may just result in stalemate, as neither side wishes to move.

In addition, the scope of discussion is not unlimited, even at the outset. For example, if one compares the S&ED outcomes on trade and

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THE U.S.-CHINA S&ED: TIME TO TINKER, NOT TO TOSS (continued)

investment to those of the Joint Commission on Commerce and Trade (JCCT), a U.S.-China institution whose sole focus is to work on trade and investment matters, it is clear that the JCCT covers a much broader range of trade and investment issues. Further, not all topics will merit the same degree of attention. Where two sides meet with a goal of solving some significant problems of the day, priorities will emerge for the quiet discussions among the top leaders.

What should be done with this awkward giant? President Xi has already bought into its legitimacy, a rare and valuable attribute. The S&ED also provides a creative mechanism to avoid being trapped by classic Chinese bureaucratic defenses, so issues can be aired with top decisionmakers to try to get results. The opportunity to engage on a regular basis on cross-cutting or urgent strategic and economic issues with all the needed high-level participants on the Chinese side cannot be replicated by quiet meetings among a few trusted interlocutors, because those meetings inevitably focus on just a few issues and only those of greatest current concern, and because the leverage of the major public, presidentially blessed event is lacking. It is also much less work to adjust an accepted institution than to scrap it and start over—especially with China.

But the new leaders in Washington will want to examine the S&ED critically, as part of a comprehensive review of how to maximize the efficiency and effectiveness of U.S. interactions with China. This should include a recognition of the obvious: any changes will need China’s buy-in to work. However, given President Xi’s major reliance on party leading groups to make economic and strategic policies for China, it could be important to try to ensure that U.S. top government officials can meet regularly with the top officials in these leading groups, even if traditionally the meetings between top officials in China and the United States have been “government to government” and not “government to party.” Other changes might include efforts to ensure that, through the S&ED, our cabinet members can interact more regularly and as equals with China’s vice premiers, whose powers in many ways more closely parallel those of U.S. cabinet members, in order to attack problems more effectively. If the S&ED remains in place, for example,
it might help to have the two presidents endorse the idea of facilitating cabinet members’ meeting with the optimal mix of top Chinese officials informally on the perimeters of the S&ED on key topics of interest to them, to maximize the utility of the time commitment by all. These shifts, along with other creative changes, may produce enough S&ED participants to satisfy the Chinese desire for a sufficiently impressive S&ED gathering, while increasing the effectiveness of the effort.

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