

# **Sons of interdependence: the Strategic Economic Dialogue, a new framework for Sino-American energy relations**

Veronica Lenzi (Ph.D student), IMT-Lucca

## Abstract

This paper shall analyze the results of the Strategic Economic Dialogue (SED) between the United States and China on energy matters, as a successful example of the IR interdependence theory. First, the paper will consider the Unocal diplomatic stalemate as a turning point in the Chinese approach to non-traditional security issues, through a focus on Chinese oil companies and their present role in Beijing's approach to bilateral strategic relations with America. The constitution of the SED will then be investigated in the light of what the interdependence theory framework predicts on the political use of economic interconnections as a new way to protect countries' national interest. The paper will try to assess whether the presence of the SED has been critical in creating the conditions for energy and environmental deals between the two countries and, more broadly, in influencing their negotiation processes on economic strategic issues. This assessment will take place through a critical review of the most salient SED deals on energy from its creation up to now, with particular attention to the relations between the energy public and private sectors, both from the American and Chinese point of view. The argument of the paper is that such an informal and non-binding place of discussion has been significant in easing the attainment of agreements on energy and is responsible for a substantive implementation of the decisions taken. Finally, the energy topics that the Obama administration has entrusted to the SED for discussion will be reviewed to assess the opportunities for future development of this top-level, informal institution.

## Introduction

This paper argues that the strategic economic dialogue (SED) between China and the United States, although carried out via informal institutions, has played a significant role in enabling energy deals between the two countries, in accordance with interdependence theory. The goal of the paper is to demonstrate that the SED, considered as an independent variable, has the power to explain the dependent variable of closer Sino-American ties on energy, which is in turn mediated by various aspects of interdependence theory.

To make this case, the paper will address itself to four separate components of analysis: (1) the Unocal case, which offers the necessary background to understand the evolution of recent Sino-American relations from competition to recognized interdependence; (2) Chinese energy behavior and strategy, recognition of which via the informal mechanisms of the SED has been important in convincing key U.S. decision-makers about the feasibility of engaging with China; (3) the connection between some of the main points of current interdependence theory and the building of the SED; and (4) the emergence of the 2008 Ten-Year Environment and Energy Cooperation Framework, which is the key evidence of the SED's impact on Sino-American energy cooperation.

### The Unocal Case

The Chinese state-owned oil company CNOOC offered \$18.5 billion to buy the relatively little American oil company Unocal in 2005.<sup>i</sup> The company also received another offer from the American oil giant Chevron. The Bush Administration and Congress felt this bid was much more than a simple business transaction. The press reported how this event made the American government “confront its own internal rifts over whether China should be viewed as a friend, foe or something in between”.<sup>ii</sup>

President Bush, though recognizing the importance of a partnership with China, had previously declared on numerous occasions<sup>iii</sup> his opposition to America’s dependence on foreign sources of energy, so any trade that went in this direction represented a problem for him. At the same time, Congress was in a state of agitation. The Committee on Armed Services in the House of Representatives therefore decided to hold a hearing on the national security implications of the possible merger of CNOOC with Unocal. At that moment, the stockholders of Unocal were still evaluating the Chinese offer together with the American one. Moreover, the perceived American hostility to the CNOOC bid had pushed the Chinese government to express accusations against the U.S. government’s intrusion in what the Chinese considered an affair of private business.<sup>iv</sup>

This move strongly disturbed Congress and evidence of this fact can be found in the surprisingly direct statements which were made during the Unocal hearing. This is one of the reasons why the analysis of this document is quite relevant to understanding the points on which diplomacy had and still has to intervene, to reconcile two different approaches to the energy matter, and examine this issue among those where cooperation is possible. In fact, if we analyze the way the United States political system dealt with this issue, we may be able to isolate the factors which provoked and reinforced Sino-American contrast on the energy market. At the same time, a subsequent overview of the activity of the Strategic Economic Dialogue (SED) may demonstrate how diplomacy had strongly contributed to finding a small but promising common denominator of interests between the two countries.

The Congressional hearing over the issue starts from the assumption that foreign corporate acquisitions are not outside the affairs of the Committee on Armed Services.<sup>v</sup> Energy is recognized as a strategic matter, something which can be considered as leverage not only on the United States’ economy but also in the regions where America applies its influence. The first point on which the committee concentrated its attention is that Chinese enterprises are state-owned and state-financed and therefore a direct extension of government will.

Two weeks ago, we passed House Resolution 344 by a vote of 398 to 15. The resolution noted the strategic importance of energy, China’s ongoing efforts to lock up global energy resources, and the impact of those efforts on U.S. gasoline prices. It further called upon the President to conduct a thorough review of this deal.<sup>vi</sup>

James Woosley, a former CIA Director who provided testimony at the U.S. Congressional hearings on the matter, reiterated that the Chinese government owns all the energy companies in the nation and CNOOC should therefore be considered as a direct

extension of the Chinese “powerful dictatorship”<sup>vii</sup> which is accused of trying to enter the completely private American market through the Unocal bid. Ideology plays a great part in this interpretation. Since China’s economy is continuously growing, the country needs to provide its industries with a major and constant flow of energy. China could choose to do this in two ways: reinforce its institutions by moving its current system toward economic freedom, or use dictatorial means to protect its development.

China may, as it modernizes, turn toward democracy and the rule of law. [...] But it also may [...] find an external enemy against which to rally its people. [...] If we start down the path of saying that China holds a good deal of our debt, and therefore, we cannot stand up to them when they attempt to take over an American company in the very, very strategic field of oil production, we will already have lost.<sup>viii</sup>

In this line of thinking, China is seen as a country that does not want to compete fairly on the energy market, but rather is a state which takes resources “off the world market, to make them unavailable”.<sup>ix</sup> Conflict is considered unavoidable since China is not willing to admit that there is a strategy behind its energy acquisitions around the globe. The Unocal acquisition is considered a part of a bigger scenario. China desires energy independence, and not just for the sake of its economy. Energy is considered the first step to building a military system that may be able to confront the U.S. Navy on delicate issues such as Taiwan and successfully reduce the American influence in the Pacific region, especially as far as the U.S. naval power is concerned.

This hearing was particularly interesting because it underlined the lack of any long-term political instrument to interpret the actions and reactions of China on the energy issue, at the time when the Unocal bid was made. In this case, Congress does not seem to possess the necessary information<sup>x</sup>, which creates a challenge for the analysis of how it can accomplish its “constitutional responsibilities”<sup>xi</sup> without the support of a diplomatic unit that has constant contact with a counterpart in Beijing.

### Chinese Oil Companies

In the Unocal case, the Chinese oil companies, namely CNOOC, were the direct targets of the U.S. Congress, especially if we assume (as the Congress did) that oil companies are the direct emanation of the government’s will. From a Chinese point of view, these companies represent the means to obtain energy supplies from a different range of countries. It is true that the companies receive generous treatment from the central government, but this frequently happens without regard to the overall economic costs for the overall nation.<sup>xii</sup> While private firms have profit as their primary interest, the Chinese National Oil Companies (NOCs) are required to care primarily about the security of the supply, considering costs and levels as a secondary priority. This attitude can both be seen in the Malacca Strait issue and in the careful search for equity oil (which is the proportion of production that a concession owner has the legal and contractual right to retain). As far as the Malacca Strait is concerned, China is now trying to develop an expensive and diversified strategy to find new ways to transport its oil. This includes contributing to the construction of alternative ports, from the Middle East to South China, which may protect the route of the navies and allow a speedy reinforcement of Chinese

naval power. The whole strategy is called “string of pearls”<sup>xiii</sup>.

The declarations made by some of the most influential Chinese think tanks echo what had been declared in the Congressional hearing on Unocal:

Asian countries including China tend to believe that energy security is too important to be left entirely to the markets because energy is becoming a matter of high politics of national security and no longer just the low politics of domestic energy policy. [...] In [Beijing’s] eyes the market can be manipulated by the West, speculated by hedge funds and agitated by price volatility. [...] [Those risks] would deal a heavy blow to the Chinese economy. Hence, Beijing is reluctant to rely merely on international trade.<sup>xiv</sup>

It therefore appears that America and China are worried by the same kinds of problems. A significant difference between the MOCs and the NOCs can be found in that Western oil companies seem more able to produce profit than their Chinese counterparts.<sup>xv</sup> This may explain why Chinese companies are interested in acquiring new spaces of influence in the international energy market. In fact, even if they are subsidized by the state to ensure that one of their main goals is providing energy security to the economy of their country, they increasingly cannot avoid considering market trends as an important issue for their development. Up until now, Chinese oil diplomacy has been especially intense as a result of the government’s perception that the world strategic market is unfair and unsafe for latecomers and had gone along with the NOCs conviction that a more aggressive presence on the foreign markets may be the best way to compete with Western oil companies as peers.<sup>xvi</sup> Politics and economics have then found a common ground, as evidenced by the way that the Chinese government uses the power of its market as a soft (or hard) weapon to influence the strategic choices of other countries, or when it politically backs up its own companies, as it happened in the Unocal case.

As far as the Unocal case is concerned, we may find it to be a typical example of the relations between companies and governments. China’s high-profile energy searching activity implies a considerable degree of risk. If it is true that dealing with unstable or weak regimes means that it is easier to obtain advantageous contracts, these governments have fickle regulations, often unable –or unwilling- to guarantee a company against losses. The choice made by the Chinese companies to enter these countries is largely due to their inability to access more easily extractable regions, but it is also related to the necessity to refill the Chinese tanks. They are also less risk-sensitive.<sup>xvii</sup>

[...] As a matter of fact, the NOCs have the propensity to let the government take the dangerous consequences engendered by their foreign oil and gas quest. The likelihood of the NOCs’ defection behavior tends to be larger with ongoing marketization. This problem is further exacerbated by the problem of asymmetric information between the government and the NOCs regarding the costs and profits of their foreign operations, and the high costs to monitor their overseas behaviors.<sup>xviii</sup>

The strength of China’s oil diplomacy depends on the coordination between the objectives of the government and the oil companies, which, as we have seen, sometimes tend to be disconnected. While the NOCs have started to consider profit as something not less valuable than provision for the country, the government has tried to reinforce the

multilateral and collaborative approach toward its bordering Asian countries; China feels that it shares a history and compelling objectives with them. It also recognizes that they are the countries which are most influenced by China's energy choices. To cope with this fact, China has invested in multilateral security and dialogue with the region.<sup>xix</sup>

When China approaches the U.S. market in situations such as the Unocal case, it is difficult for it to adopt a similar approach, though in this case the interests of the two countries are very similar, even if the history is not. The reason for this can be found in the Chinese perception that the U.S. is the most responsible for the creation of a system which seems to be made for a unipolar and sole leader. China is also concerned with the negative judgment the United States has often expressed about Beijing's development model. This conviction is generously reciprocated by the Americans, who consider China to be a country that pretends to enjoy the advantages of a system for which it has not paid, while trying to push America out of East Asia, and reduce its influence. Though China has accepted the international system (or at least its fundamental assumptions) and it is increasingly referring to it in a positive way, it is still true that "China's suspicion of the UN and other international organizations did not fade away immediately. At that moment, China remained pendulous between an outsider and an insider of the international institutions."<sup>xx</sup> The permanence of this feeling can be understood if we observe how China still tries to build multilateral relations mostly outside international institutions.<sup>xxi</sup>

This approach can be useful in understanding the relations between China and the United States. In fact, it is easier for China to engage countries which are not universally considered as the guardian of the system but, on the contrary, are more flexible about its objectives and possibilities. On the other hand, the United States judges China's behavior on the basis of its acceptance of the rules of the game and often perceives its reluctance as a clear threat to the equilibrium of the system.<sup>xxii</sup> The Unocal case is the example where these reciprocal doubts have been radicalized to a rupture point. In July 2005 there had been lack of communication between two political organisms which were unable -or unwilling- to relate their perceptions to the other's goals, and an issue, energy, which emerged as a significant topic on which a discussion was needed. To get over this impasse, both China and the U.S. had to make concessions to diplomacy. China had to give content to its diplomatic action, agreeing to discuss substantive energy topics to avoid the impression that China's peaceful rise was just a covert operation to obtain more influence in the international system. This has also meant giving up China's opposition to bilateral talks with America. The United States, alternately, had to accept that China's exigencies were quite similar to the American ones, and therefore, to obtain China's collaboration, had to be treated as strategic international factors.

The Congressional hearing on Unocal had taken place just a few months before the American administration and the Chinese government engaged in a comprehensive set of critical talks. It is especially impressive since it demonstrates how Congress perceived China as a military power, even capable of affecting the will of American enterprises which were too attentive to their profit.<sup>xxiii</sup> If there had not been a change in the approach to China, the tones and the words used in that meeting could have easily justified the impression of a new, rising cold war conflict. It is undeniable that China's rapid globalization has generated sources of contradiction in its behavior. At the same time, the Chinese leadership recognizes that:

[China] has stepped into a way with no retreat, and reached a point of no return. [...] The Chinese government will need not only the cooperation of the Chinese people but the support of the international community to manage such imbalances as human welfare and environmental/climate change degradation; and hence [...] fundamental change is taking place.<sup>xxiv</sup>

China, then, remains multilateral while the United States still prefers bilateral relations. However, China's particular brand of multilateralism remains a strongly pragmatic one. Bilateral dialogues have been held by the main Chinese think tanks (such as the China Institute of International Studies, the Shanghai Institute for International Strategic Studies, and the China Foundation for International and Strategic Studies) together with their U.S. counterparts.<sup>xxv</sup> During these meetings, the military issues that worried the Congressmen during the Unocal hearing are normal business. These appointments are certainly not sufficient to solve the reciprocal mistrust and above all do not represent a protocol to be automatically used in case of contrast between the two countries. They have however represented the precedent for another kind of engagement which seems more comprehensive and has been directly promoted by the government of the two countries: the strategic dialogues and, especially the SED.

#### The Theoretical Reasons for the SED through the Lenses of Interdependence Theory

There is, by now, little disagreement that the U.S. and China are in fact interdependent on each other economically.<sup>xxvi</sup> The real question in controversy is whether this interdependence is good for one or both countries and, as far as this paper is concerned, how this interdependence exerts an influence on the dependent variable of U.S.-Chinese energy agreements and deals. McCarthy's position is that Sino-American interdependence has manifested itself primarily in bilateral trade, and has not been as influential in coloring more fundamental political and economic relations. This stand, however, does not take into consideration the role which energy is having in moving states' interdependency from a mere consequence of trade to a more comprehensive need for collaboration. In fact, such a matter has obliged governments of importing countries –and not just the Chinese and American ones- to confront themselves with the fact that, in order to advance their own energy interests, they had to match the expectations of a number of players, mainly the biggest exporters and producers, that tended to have quite different expectations about the management and scope of energy trade. However, and here is the point which makes interdependence theory so relevant for the energy topic, it is possible to find equilibrium in this arena only through the recognition that other players' choices are strongly able to damage (or boost) our position. Clearly, a pillar-player such the United States is strongly encouraged to take the lead in making proposals to the other players, and the Chinese as well have willingly left this burden to the Western democracy. An initiative such as the SED is then even more relevant because it makes an effort to include China as a powerful player with the right to set the rules in the same way the U.S. does, while in the most visible global institutions governing energy this does not happen, and the same United States had adopted quite different approaches in the past.

What does this development mean in terms of interdependence theory? Mott succinctly stated that "Interdependence theory holds...that the relationship between trade and the frequency of war is inverse."<sup>xxvii</sup> To this insight, we can add that the relationship be-

tween trade and warlike rhetoric or posturing, or the mutual perception of another country as a strategic enemy, is also inverse. With that in mind, an important limitation of interdependence theory is its failure to predict *when* the relationship between trade and political cooperation will manifest itself. In the case of the U.S. and China, trade has created interdependence since 1979, but it was not until 2008 that the two nations can be said to have assumed a true footing of partnership, however largely limited (for now) to informal means. On the other hand, such a relationship is well addressed by interdependence theory when we decline it as a passage between a status of mere trade interdependence to one of strategic interdependence. In this case, the meaning of strategy should be carefully declined. SED talks have created progress in the Sino-American energy relations because they have focused on limited, simple actions, which were rooted in mutual interests and relatively easy to enforce. This ground approach have been maintained even when biggest scenarios were discussed and can be clearly tracked in the Ten Year Cooperation framework. So, in this situation strategy entails the capability of moving through small, duable steps in order to slowly fill the vacuum governance that still exists in the energy field and –even more strongly- the new green technology, through a realist recognition of the mutual economic interests of the two countries. This kind of path -though it may become politically difficult to justify in a period of great international tensions- should be considered by other relevant players of the energy field, mainly on the Western side of consumers.

In this sense, moreover, the Sino-American case illustrates that a significant period of time can elapse between the onset of trade interdependence and strategic interdependence, which seems to be the road that China and the U.S. are on. Ziegler provides a fascinating account of why such a delay has manifested itself, arguing that interdependence is, in part, the end result of a period of cost-benefit analysis during which the interdependent countries weigh the consequences of direct or indirect military action (or mere military posturing).<sup>xxviii</sup>

Interdependence theory has also long acknowledged, in line with Mott and Ziegler's conclusions, that interdependence *qua* diplomatic strategy follows some time after interdependence *qua* fact of the matter. Nye, for example, noted that the Reagan administration only “grudgingly came to accept” U.S. interdependence on multilateral institutions.<sup>xxix</sup> In the case of China and America, the way in which the SED has interacted with the two countries' energy agreements and policies demonstrates that it can take quite a while for strategic thinkers to go past what Nye has called the grudging acceptance of interdependence, and to adopt it as a basis for policy. The evidence, based on the Sino-American case, is that mere interdependence is not enough; the fact of interdependence must be translated into a specific policy framework to actually color diplomatic, political, and economic relationships between countries. The SED, as we will see, is a significant first step, which yet has to be fully explored in its possibilities.

Interdependence theory, while weak in predicting a timetable for a positive recognition of interdependence by states, has however proved successful in drawing the path which leads from interdependence as a fact to interdependence as a strategic choice. This move is nor easy, nor clearly replicable for other actors; it may well be that the SED will remain a unique case, or that it will not be able to provide increasingly positive results, as we could now expect. Interdependence theory, however, suggests us that other state actors may benefit from an involvement in SED-like forums and that success of it may create the right conditions to bring about cooperation in other important areas connected to en-

ergy as well, such as energy infrastructure and investment for energy research and development. The SED has required leadership from the dominant world's energy consumers, which have acknowledged the need for the reinforcement of a strategic interaction. The successes, failures and expansion (or replication) of this informal arena will tell interdependence theory scholars a lot about the tenure of their ideas when applied to a case-study in the upcoming years. For now, the economic and political relevance of the SED should be assessed and discussed.

### The Strategic Economic Dialogue

#### *The American Initiative*

The Unocal episode identified a contradiction in the behavior of the Bush administration. In fact, if America viewed China as a “strategic competitor”<sup>xxx</sup> and Unocal as one fundamental piece which could have permitted Beijing to get a significant advantage in the energy chess game, it is also true that the U.S. government recognized the similarities between the two countries and was therefore prone to accept some of the explanations for the Chinese behavior. The solution to the impasse in the relations between Washington and Beijing which had followed the Unocal bid was successfully overcome by the creation of the Strategic Economic Dialogue (SED), in September 2006. The first meeting was held in December 2006. The SED is an organism which has the objective of promoting a constant exchange of opinions between the highest official levels of the two governments on trade and economic issues. It is led at the vice-premier level in China and by the lead economic cabinet secretary on the United States side, and there is cabinet-level representation from all ministries with responsibilities for economic issues.<sup>xxxii</sup> The SED members meet two times per year, alternatively in the U.S. and China.

The Strategic Economic Dialogue was basically conceived as a tentative step to revisit the Sino-American relations through engagement, but without any obligation to get to official bilateral agreements. As the American founder of the SED, former Secretary of Treasury Henry M. Paulson, explained:

Discussions cover a variety of strategic issues, of both immediate and long-term concern, and are mostly unstructured. Unlike in other U.S.-Chinese economic dialogues, in the SED each side's commitments are recorded and publicized at the end of the sessions and then meticulously followed up on at the highest levels to ensure that they are fully implemented.<sup>xxxii</sup>

By focusing on economics, the SED has a lot to do with energy issues and not just for civil purposes. The officials involved in the discussions have been able to confront their position on the military agenda, giving birth to separate security talks on the topic.<sup>xxxiii</sup> It is interesting to compare this attitude to the one the Congress showed during the CNOOC-Unocal case. This time, Paulson stresses the importance of direct knowledge to achieve the results the SED has recently obtained. Mutual trust and direct knowledge at the highest level of the two governments can enable the top officials to subscribe to more substantive agreements or, at a minimum, reduce the possible reciprocal misunderstandings. A key conviction at the basis of the SED establishment is the idea that if Beijing does not make key reforms or undergoes a serious economic crisis, the stability

of the U.S. and of the global economies could be seriously threatened.

### *Energy Security*

When it comes to energy security, China and America have agreed on the need for a comprehensive energy policy. An example which is often quoted demonstrates how, if China were as efficient today as the United States was in 1970, it would save the equivalent of 16 million barrels of oil a day, which represents almost 20 percent of the world's daily consumption.<sup>xxxiv</sup> Americans consider the SED to be the way to move China from viewing energy as merely an input for economic growth to the recognition of the need to proactively manage its energy demand. Three key factors can be stressed to justify China's collaboration.<sup>xxxv</sup> The first factor concerns economy. China has always tried to keep residential energy prices low to promote social stability, but this has created wasted energy and inefficiency, especially since energy prices have escalated. The persistence of these caps is resulting in numerous shortages which are persuading the government to change its policy. Second, China's governors have understood that resource scarcity strongly limits their ability to maintain political stability by improving the population's quality of life. Third, the elite classes of China are increasingly concerned about the environmental issues, which are now directly affecting them: "There are simply not enough energy resources to allow the world's entire population, or even the third of it represented by the Chinese, to lead the resource-intensive lifestyle that Americans currently enjoy. A way to support higher incomes while placing less of a burden on resources must be found."<sup>xxxvi</sup> The Strategic Economic Dialogue is, for the Americans, and increasingly for the Chinese, the main arena in which to pragmatically discuss these issues with a significant absence of political leverage. The positions which are found in this context can then be transferred to the international multilateral institutions where both China and the United States have a significant role.

However, diplomacy still has work to do. China maintains some reserves about the role it will play in the international system. These doubts obviously cannot be solved simply by its bilateral relations with the United States. What can be observed, instead, is how the results of China's dialogues and clashes with America influence its whole balance in the world context.<sup>xxxvii</sup> The simple fact that America and China's reciprocal observations are taken as a tentative equilibrium settling, instead that being considered worrying threats, is already an appreciable result. For the moment, the most remarkable examples of this trend can be found on the Chinese side.

The next level of the Sino-American engagement is not so obvious. Certainly, the Strategic Economic Dialogue, as it currently stands, is not sufficient to completely avoid a China-United States collision over energy resources. To expand the functions of this instrument, it necessary to go beyond the simple talks and start involving some long-period economic projects. This direction has partially been considered, though not really fully implemented.<sup>xxxviii</sup> The most notable move in this line was announced during the fourth SED meeting in Annapolis, which took place in June 2008: a Ten-Year Environment and Energy Cooperation Framework was signed and then implemented in the December meeting.

The Cooperation Framework has been structured to foster extensive collaboration over a ten year period to address the challenges of environmental sustainability, climate

change, and energy security. There are five participating cabinet agencies for the United States: the Departments of the Treasury, State, Commerce, and Energy and the Environmental Protection Agency. There are seven participating agencies for China: the National Development and Reform Commission, State Forestry Administration, National Energy Administration, and the Ministries of Finance, Environmental Protection, Science and Technology, and Foreign Affairs.<sup>xxxix</sup> Additional agencies can become involved by the United States and China if they consider it necessary.

The five initial goals that have been established in the framework are clean, efficient, and secure electricity production and transmission, clean water, clean air, clean and efficient transportation and the conservation of forest and wetland ecosystems. The most relevant aim to this analysis is the first one. On this point, preliminary discussions have focused on steps both countries can take together to address electricity supply and demand challenges. As far as the power generation sector is concerned, an efficient diversification of energy resources is expected. Potential areas of collaboration include renewable and alternative sources of clean energy, clean fossil fuel, power grids and the electricity market, and nuclear power. For the Americans, this achievement reflects the internal consistency of the “responsible stakeholder” approach. Four years ago, when former Deputy Secretary of State Robert Zoellick made his speech before the National Committee on U.S.-China Relations<sup>xi</sup>, he probably did not imagine that the expression he used to define China would become the clearest and most lasting definition of the policy the United States was to apply toward the Asian country after the Unocal crisis and throughout the rest of the Bush presidency. On that occasion, Zoellick highlighted a series of issues the U.S. administration considered of primary importance for China to become a “responsible stakeholder” in world politics.

The United States asked China to show its intentions clearly, recognizing that its actions were frequently perceived as opaque by the other main political actors of the world. This was both recognition of the role China was starting to play on the world scene and a clear warning that the United States was not ready to give up its system of rules and institutions to make room for the emerging Asian power. Significantly, Zoellick stated that “we can cooperate with the emerging China of today even if we work for the democratic China of tomorrow”.<sup>xli</sup>

The content of the work the United States meant to accomplish dealt with almost every sensible issue in the Sino-American relations. China’s approach to military modernization, environmental global issues, Taiwan, and the stabilization in the North Korean peninsula were all present in Zoellick’s speech. To him, the Asian state is growing in the milieu of international institutions the West created, but even more importantly, “it is making active use of these institutions to promote the country’s development of global power status.”<sup>xlii</sup> Because great powers dispose of different places of discussion where they can readily meet to discuss the matter and cool the tension, China’s active presence in these large aggregations of mostly democratic states can also encourage better crisis management. As for the sensitive energy field, an important way through which the U.S. means to foster interdependence and policy coordination with China are through technology and program sharing, again showing a slight American preference for a bilateral approach to the issue. The underlying assumption of this reason was that since globalization requires all the countries to have reliable partners, the United States and

China should collaborate in maintaining necessary social stability and managing physical infrastructures in all the areas where both nations have interests.

### *A Chinese Perspective*

One key aspect of the energy issue treated in the SED and strategic dialogues is China's deepening involvement in unofficial diplomacy, which appears designed to alleviate regional apprehensions regarding China's emergence. In weighing the costs and benefits of participating in unofficial diplomacy, Beijing seems to have calculated that it is better to be present at such groupings.<sup>xliii</sup> For example, China has derived benefits from the unofficial Council for Security Cooperation in the Asian Pacific (CSCAP) dialogues, since they were a useful tool for information gathering, whereby Beijing could gain an appreciation of what security issues are preoccupying the minds of various academic and policy communities throughout the region, and how, in particular, China's emergence has been perceived. In the case of the United States, China's objectives are based on "its need to sustain U.S. neutrality at least over Taiwan, to maintain its economic growth and development for which the U.S. relationship is critical, and to become and be accepted as one of the great power without U.S. obstruction."<sup>xliv</sup>

The way China deals with energy security demonstrates that China's foreign policy is well-described by the liberal perspective on international relations. China is trying to pursue a collaborative path; for example, although Beijing is critical of the United States over its Middle East policies, Chinese leaders appear willing to work together to keep energy producing regions quiet and stable. Moreover, China is actively cooperating with other importing nations through various multilateral forums. In line with liberal theory, energy dependence appears to have exerted a moderating influence on Chinese foreign policy, leading Beijing toward cooperative strategies. As for the United States, China needs to secure stable and diversified supplies, maintain moderate prices, and protect the transportation routes through which oil and natural gas flow. The driving elements in China's foreign policy since the Deng era have been continued modernization and development of the economy, a focus on the regions bordering China, and promoting nationalism as the leading ideological current.<sup>xlv</sup> China's foreign policy is concerned above all with preserving national sovereignty and national security.

Economic development and maintaining domestic stability are high priorities, and readily available supplies of energy are critical not only to keep economic growth rates at their recent high level but also to provide the capabilities needed to strengthen China's international role and preserve the country's historic boundaries (which basically involves questioning Taiwan's independence). It is widely accepted that the country's national interests are increasingly difficult to protect as the growing dependence on imported oil makes China more vulnerable to the instability of the global market and therefore pushes it to move beyond its classical diplomacy, toward a greater engagement, as the SED outcomes demonstrate. In fact, the Sino-American dialogues and plans such as the Ten Year Cooperation framework on energy could also contribute towards moving both China and the United States beyond their focus on increasing supply to a more responsible conservation of the current resources and research on the renewable ones.<sup>xlvi</sup> Since energy is the engine of the whole Chinese economy, a China more dependent on foreign sources of energy means that Beijing will be unavoidably led to share its fortunes with the other

world main actors.

What sets China's current strategic dialogues apart from previous ones is the removal of misgivings and the belief that cooperation, no matter if obtained after tough discussions, are the unquestionable outcomes since there cannot be a real enhancement without the involvement of the most powerful counterpart in the world. Beijing has given clear, if not complete, clues about the way it perceives Washington's moves on the global chessboard.

The United States has [...] established political, military, and economic footholds in Central Asia and strengthened its military presence in Southeast Asia, in the Persian Gulf, and on the Arabian Peninsula. These moves have been part of a global security strategy that can be understood as having one center, two emphases. Fighting terrorism is the center. And the two emphases are securing the Middle East and preventing the proliferation of weapons of mass destruction.<sup>xlvii</sup>

Given this interpretation of the American world approach, China still believes that the fading unipolar moment of the United States require the country to engage with the Eastern partner. Bilateral problems should therefore be handled delicately, and a stable new framework must be established to prevent troubles from disrupting an international environment that is favorable for accommodating the two countries' interests. Beijing therefore stresses its request for the rest of the world, especially the United States, to help in creating this environment. The "peaceful rise" doctrine conveys another important aspect for Sino-American relations. PRC's repeated claims to avoid mercantilism implicitly state that nowadays the economies of the two countries are more interdependent than ever before. As a result, China is willing to find a collaborative path to discuss bilateral trade issues. As we have seen, the SED wanted to approach "Beijing through economic issues of interest to both countries" since it is "an effective way to produce tangible results in economic and non-economic areas".<sup>xlviii</sup> On the other hand, China recognizes that much of its present economic and social progress results from its growing interdependence with the United States. By allowing Chinese products to enter U.S. markets and sponsoring China's membership in the World Trade Organization, Washington has made an enormous contribution to China's economic dynamism. Nonetheless, as the free market theory declares, this choice also meant that America granted China one of the most powerful weapons to affect United States' ability to achieve its goals. Indeed, the Chinese imperious need for energy is what is really pushing Beijing to move from being a selective stakeholder to become a responsible member of the international system.<sup>xlix</sup>

### Conclusion

China sees diplomacy as increasingly necessary to promote its development issues. Strategic dialogues such as the SED may push toward a more comprehensive American involvement in the Chinese favorite form of engagement, which is multilateral diplomacy.<sup>1</sup> If it is true that multilateral diplomacy allows Beijing to not expose the country on the international stage too much, while still promoting its affairs, it is also true that a stronger involvement by the United States in this context may change some of the fea-

tures of the current multilateral diplomacy. With China's participation in international institutions, more and more international norms are being used to define the domestic political agenda, such as the massive new legislation and abrogation of laws in China after its accession into the WTO. We have seen how China's diplomacy seems more willing to be incorporated into the framework of multilateral institutions. At the same time, by 2008, it was clear that this phase of Sino-American relations had been coming to an end, and giving way to an era in which trade interdependence was clearly influencing mutual energy policy, if only on an informal level. In fact, the Obama administration has accelerated the pace of engagement with China on both traditional and clean energy issues. It is notable that Obama appointed a Chinese-American, Steven Chu, as the U.S. Secretary of Energy. However, more substantively, the U.S. has taken the lead in redefining the tenor of its energy relations with China from one of grudging acknowledge of interdependence to a more positive character. As the Brookings Institution noted, "Perhaps most fundamental, a year ago few would have included the issue of clean energy and climate change as among those shaping the U.S.-China relationship, but now both sides acknowledge that it has become a Tier 1 issue in U.S.-China relations."<sup>li</sup>

Notably, even though the Copenhagen conference has showed the limits of the Sino-America dialogue on environmental issues, the effort of bringing together low-level officials from each side to build working relationships that could develop over decades has perhaps even increase, under President Obama's mantra about the importance of interaction, no matter what. The American Administration therefore wants to insist on the tradeoffs between economic and strategic issues, and this goes in the direction of reinforcing the operations of the SED.

A compromise between two ways of dealing with problems –the one of the small, careful steps and the broader, political approach- must however be found, and bilateral institutions such as the SED may be the natural incubator for this. If this was the final path to be taken.

In the long run, the strategic dialogue mechanism between China and the United States will be a model for sound interaction between the rising power and the existing power and, if successful, will be a breakthrough diplomatic process in international relations.<sup>lii</sup>

#### References

- I. Bremmer, *Oil: A Bumpy Ride Ahead*, World Policy Journal, Fall 2008
- J.S. Barkin, *International Organization: Theories and Institutions*, MacMillan: New York, 2006
- C.F. Bergsten, *A Partnership of Equals*, Foreign Affairs, July/August 2008
- Z. Bijian, *China's Peaceful Rise*, Brookings Institution Press: Washington, D.C., 2005
- D. Blumenthal and J. Lin, *Oil Obsession*, Armed Forces Journal, June 2006
- K. Bradsher, C. Pala, *Consolation prize for China oil firms*, The New York Times, August, 23, 2005

- W. A. Callahan, *Chinese Visions of World Order: Post-hegemonic or a New Hegemony?*, *International Studies Review*, December 2008
- S. Chen, *Motivations behind China's Foreign Oil Quest: A Perspective from the Chinese Government and the Oil Companies*, *Journal of Chinese Political Science*, vol. 13, April 2008
- J. Y. S. Cheng, *A Chinese View of China's Energy Security*, *Journal of Contemporary China*, vol. 17, May 2008
- W. I. Cohen, *Response to China*, Columbia University Press: New York, 2009
- Z. Daojiong, *China's Energy Security and its International Relations*, *The China and Eurasia Forum Quarterly*, November 2005
- E. Downs, *China*, Brookings Foreign Policy Studies, Energy Security Series: Washington, D.C., December 2006
- E. S. Downs, *China's Quest for Energy Security*, RAND: Santa Monica, 2000
- E. Economy, M. Oksenberg, *China Joins the World: Progress and Prospects*, Council on Foreign Relations Books: Washington, D.C., 1999
- E.C. Economy, *The Great Leap Backward? The Costs of China's Environmental Crisis*, *Foreign Affairs*, September/October 2007
- Energy Washington Week, *State Department adds Energy User Focus to Energy Security Plans*, September, 7, 2006
- International Energy Agency (IEA), *World Economic Outlook*, 2007
- S.L. Kastner, *The Global Implications of China's Rise*, *International Studies Review*, December 2008
- R. O. Keohane, J. S. Nye, "Interdependence in World Politics", in G.T. Crane, A. Amawi, *The Theoretical evolution of international political economy: a reader*. New York: Oxford University Press, 1997
- H. H. Lai, *China's Oil Diplomacy: Is It a Global Security Threat?*, *Third World Quarterly*, April 2007
- R. Z. Lawrence, *China and the Multilateral Trading System*, Harvard University, 2007, from the website <http://www.nber.org/papers/w12759>
- E. Mansfield, *Power, Trade and War*, Princeton University Press: Princeton, 1994
- Ministry of Foreign Affairs of the People's Republic of China, *China and the United States Held the Fifth Round of Strategic Dialogue*, from the website [www.fmprc.gov.cn](http://www.fmprc.gov.cn)
- P. Papayoanou, *Power Ties: Economic Interdependence, Balancing, and War*, University of Michigan Press: Ann Arbor, 1999
- S. Zhao, *China's Global Search for Energy Security: Cooperation and Competition in Asia-Pacific*, *Journal of Contemporary China*, May 2008
- X. Zhou, *Sino-U.S. Conflict: Patterns and Implications*, work presented at the meeting of the Southern Political Science Association, January 2008

C.E. Ziegler, *The Energy Factor in China's Foreign Policy*, Journal of Chinese Political Science, vol. 11, March 2006

- 
- i X. Ye, *China launches bid for Unocal take-over*, China Daily, June 24, 2005
- ii R. B. Stevenson, *News Analysis: Chinese bid for Unocal puts Bush in hard spot*, International Herald Tribune, June 27, 2005
- iii From the website [www.energybulletin.net](http://www.energybulletin.net), *State of the Union: The Advanced Energy Initiative* and R. W. Stevenson, *With Bid for Unocal, U.S. Struggles on China Policies*, The New York Times, June 26, 2005
- iv W. Jiang, *The Unocal Bid: China's treasure hunt of the century*, from the website [www.asiamedia.ucla.edu](http://www.asiamedia.ucla.edu), posted on July 7, 2005
- v *National Security implications of the possible merger of the China national off-shore oil corporation (CNOOC) with Unocal corporation*. Hearing before the Committee on Armed Services, House of Representatives, first session. Hearing held July 13, 2005, p. 2
- vi Hearing before the Committee on Armed Services, *cit.*, p. 2
- vii Hearing before the Committee on Armed Services, *cit.*, p. 4
- viii Hearing before the Committee on Armed Services, *cit.*, p. 5
- ix Hearing before the Committee on Armed Services, *cit.*, p. 7
- x Q. Yaqing, *International Factors and China's External Behavior*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, edited by P. Kerr, S. Harris, Q. Yaquing, Palgrave MacMillan: New York, 2008
- xi Hearing before the Committee on Armed Services, *cit.*, p. 25
- xii S. Chen, *Motivtions behind China's Foreing Oil Quest: A Perspective from the Chinese Government and the Oil Companies*, Journal of Chinese Political Science, vol. 13, 2008, p. 93
- xiii C. J. Pehrson, *String of Pearls: Meeting the Challenge of China's Rising Power across the Asian Littoral*, Carlisle Papers in Security Strategy, from the website [www.strategicstudiesinstitute.army.mil](http://www.strategicstudiesinstitute.army.mil)
- xiv Y. J., *China's "New" Diplomacy, Foreign Policy, and Strategy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, *cit.*, p. 85
- xv S. Chen, *Motivtions behind China's Foreign Oil Quest: A Perspective from the Chinese Government and the Oil Companies*, *cit.*, p. 86
- xvi S. Chen, *Motivtions behind China's Foreign Oil Quest: A Perspective from the Chinese Government and the Oil Companies*, *cit.*, p. 81
- xvii S. Chen, *Motivtions behind China's Foreing Oil Quest: A Perspective from the Chinese Government and the Oil Companies*, *cit.*, p. 96
- xviii C. E. Ziegler, *The Energy Factor in China's Foreign Policy*, Journal of Chinese Political Science, vol. 11, 2006, p. 13
- xix S. Harris, *China's Strategic Environment*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, *cit.*, p. 27
- xx X. Liu, *China's Energy Security and Its Grand Strategy*, Policy Analysis Brief of The Stanley Foundation, September 2006, from the website [www.stanleyfoundation.org](http://www.stanleyfoundation.org)
- xxi B. Glaser, *Two Bilateral Dialogue Mechanism Manage Friction*, A Quarterly E-Journal on Asian Bilateral Relations, July 2007, from the website [www.csis.org](http://www.csis.org)
- xxii Hearing before the Committee on Armed Services, *cit.*, p. 43
- xxiii P. Kerr, S. Harris, Q. Yaqing, *Tactical or Fundamental Change?*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, *cit.*, p. 234
- xxiv Hearing before the Committee on Armed Services, *cit.*, p. 21
- xxv B. Taylor, *China's "Unofficial" Diplomacy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, *cit.*, p. 205-206
- xxvi M. McCarthy, *The Impact of Economic Interdependence on U.S.-China Relations*, American Political Science Association, from the webpage [http://www.allacademic.com/meta/p\\_mla\\_apa\\_research\\_citation/0/8/4/3/0/pages84304/p84304-1.php](http://www.allacademic.com/meta/p_mla_apa_research_citation/0/8/4/3/0/pages84304/p84304-1.php), p. 2.
- xxvii W.H. Mott, *The Economic Basis of Peace*, Greenwood:Westport, 1997, p. 233.

- 
- xxviii C.E. Ziegler, *The Energy Factor in China's Foreign Policy*, Journal of Chinese Political Science, March 2006, 1-23, p. 8.
- xxix R. Nye, *Power and Governance in a Partially Globalized World*, London: Routledge, 2002, p. 26
- xxx George W. Bush on China, from the website [www.ontheissues.org](http://www.ontheissues.org)
- xxxi H. M. Paulson Jr., *A Strategic Economic Engagement*, Foreign Affairs, September/October 2008, p. 2
- xxxii H. M. Paulson Jr., *A Strategic Economic Engagement*, cit., p. 3
- xxxiii B. Taylor, *China's "Unofficial" Diplomacy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, cit., p. 207
- xxxiv H. M. Paulson Jr., *A Strategic Economic Engagement*, cit., p. 5
- xxxv Z. Bijian, *China's Peaceful Rise*, Brookings Institution Press, Washington, D.C., 2005, p. 1-13
- xxxvi Z. Bijian, *China's Peaceful Rise*, cit., p. 5
- xxxvii Z. Qingmin, *Continuities and Changes in China's Negotiating Behavior*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, cit.
- xxxviii C. F. Bergsten, *A Partnership of Equals*, Foreign Affairs, July/August 2008
- xxxix From the website <http://www.treas.gov/press/releases/reports/uschinased10yrfactsheet.pdf>
- xl *United States Urges China To Be Responsible World Citizen*, cit.
- xli *United States Urges China To Be Responsible World Citizen*, cit., p. 2
- xlii M. Lanteigne, quoted from G. J. Ikenberry, *The Rise of China and the Future of the West. Can the Liberal System Survive?*, Foreign Affairs, January/February 2008, p. 5
- xliii Z. Bijian, *China's Peaceful Rise*, cit., p. 34
- xliv S. Harris, *Case Studies in China's "New" Diplomacy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, cit., p. 212
- xlv R. Evans, *Deng Xiaoping and the Making of Modern China*, Penguin: London, 1995
- xlvi From the website <http://www.treas.gov/press/releases/reports/uschinased10yrfactsheet.pdf>
- xlvii W. Jisi, *China's Search for Stability With America*, Foreign Affairs, September/October 2005, p. 2
- xlviii H. M. Paulson Jr., *A Strategic Economic Engagement*, cit., p. 2
- xlix J. Eisenman, D. T. Stewart, *Can "Responsible Stakeholder Hold?"*, [www.policyinnovations.org](http://www.policyinnovations.org)
- <sup>1</sup> J. C. Ramo, *The Beijing Consensus*, The Foreign Policy Centre, 2004 and W. Yan, *Analyzing Features in China's "New" Diplomacy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, cit.
- <sup>li</sup> Brookings Institution, *U.S.-China Clean Energy Cooperation: The Road Ahead*, from the webpage [http://www.frankhaugwitz.info/doks/cdm/2009\\_09\\_us\\_china\\_energy\\_cooperation\\_lieberthal\\_brookings.pdf](http://www.frankhaugwitz.info/doks/cdm/2009_09_us_china_energy_cooperation_lieberthal_brookings.pdf), p. 4.
- <sup>lii</sup> W. Yan, *Analyzing Features in China's "New" Diplomacy*, from the book *China's "New" Diplomacy: Tactical of Fundamental Change?*, cit., p.181

