

### **U.S.-China Relations at Critical Juncture and Obama-Hu Summit**

Ken Koyama, PhD  
Director  
Strategy and Industry Research Unit  
Institute of Energy Economics, Japan

On January 19, U.S. President Barack Obama and Chinese President Hu Jintao held a summit meeting at the White House. President Hu then made his first official visit to the United States in the last four years and nine months and had his eighth meeting with Obama. After their summit talks, they issued a joint communiqué that emphasized U.S.-China cooperation in the world economy and security by calling for enhancing bilateral relations, promoting bilateral exchanges, and addressing regional and global challenges.

The U.S.-China summit attracted global attention as media reports before the talks predicted that the summit could be of historic significance to bilateral relations. There are two reasons for the global attention to the Obama-Hu meeting. First, the United States and China now boast of their respective outstanding presences in the world with regard to the world economy, international politics and security, as symbolized by the recent timely announcement, which came in a manner to coincide with the Summit, that China replaced Japan as the world's second largest economy in 2010. Second, there are frictions now in the important U.S.-China relations over a wide range of problems including economic, security and human rights issues. The latest U.S.-China summit was expected to represent a key turning point for the future bilateral relationship and its influences on the entire world.

The Obama Administration upon its inauguration might have expected China to not only be the United States' key economic and trading partner but also its strategic partner, cooperating with the United States in addressing global and regional problems. But the situation might have turned around over the past two years since the inauguration.

While the United States has remained plagued with a prolonged economic slump, China has promptly recovered from an economic slowdown and restored a double-digit economic growth rate. Their presences in the world economy have moved in different directions. Amid such changes, China has growingly been criticized for taking advantage of its undervalued yuan to expand exports, exerting negative impacts on U.S. industry and employment. In the U.S. Congress, calls have grown for a tougher attitude toward the yuan problem. For its part, China at the Group of 20 Summit and other forums has pointed out that the U.S. quantitative monetary easing policy for economic

recovery has led to negative impacts as excess liquidity flowing into China and other emerging economies to trigger inflation and economic bubbles. U.S.-China economic frictions have thus begun to be emphasized. Although the United States and China have deepened their economic relations through their bilateral trade expansion and China's purchases of U.S. treasury bonds, their economic frictions have grown conspicuous. In a symbolic development, the media quoted remarks by President Hu that called the dollar-based global monetary system "a relic of the past" just before his U.S. trip attracted public attentions.

In non-economic areas, China's stances on international discussions over the global warming issue at the 15th Conference of Parties to the U.N. Framework Convention on Climate Change and on North Korean problems, including the sinking of a South Korean warship and a shelling attack on South Korea's Yeonpyeong Island, have failed to meet U.S. expectations. In the United States, China is growingly viewed as getting tougher on external problems including the South China Sea and Senkaku Islands issues, restrictions on its rare earth exports and its military buildup. An important point is that the United States has grown more concerned over China in regard to international politics, security and human rights. "America and China have arrived at a critical juncture," U.S. Secretary of State Hillary Clinton said in a speech on U.S.-China relations on January 14. The latest U.S.-China summit came as the environment surrounding the two countries was growing tougher. But the U.S. side (and the Chinese side) gave priority to the positive enhancement of bilateral relations even under the toughening environment, arranging a small-scale unofficial dinner meeting for the two leaders on the eve of the official summit, in addition to an official banquet. The U.S. side has demonstrated such exceptionally great hospitality for the Chinese leader in an apparent bid to promote bilateral dialogue.

The joint communiqué basically called for enhancing bilateral relations, indicating that Obama and Hu gave priority to the restoration and stabilization of the relations. Interestingly, energy and environment could be positioned as one of the priority areas for U.S.-China cooperation. This is because (1) the promotion of clean energy development and energy conservation to upgrade the energy supply/demand structure is greatly effective for energy security and environmental measures both in the United States and China as the world's first and second largest energy consumers and carbon dioxide emitters, (2) the energy and environment area has great potential for bilateral technology cooperation and transfer, (3) bilateral cooperation is expected to expand energy business opportunities, and (4) upgrading of the two countries' energy supply/demand structure can contribute to the stabilization of energy markets and the reduction of environmental loads for the entire world. Thus the energy and environment area represents an important theme in which the two countries can pursue their common interest even in the face of various difficult challenges. Following the latest summit, therefore, the two countries are expected to put forward a specific action plan for the enhancement of bilateral relations and cooperation in the energy and environment area.

But how the United States and China would enhance their cooperative relations

in the energy and environment area is still uncertain. Basic U.S. and Chinese market systems are different as China has giant state-run companies and as their market regulation/management approaches differ substantially. In addition to the difference, various problems including the protection of intellectual property rights regarding the transfer and introduction of technologies must be considered. But far more important is the fate of the entire U.S.-China relationship on individual cooperation areas including energy and environment, or how the two countries would address yuan, human rights and other problems over which they have remained apart. Cooperative relations in individual areas may depend on the fate of broader problems. The two countries' respective domestic conditions including politics, social problems, economic growth and employment are also important for their relations. In this sense, it may be difficult to be overly optimistic about their future relations.

The United States, China, and their bilateral relationship represent the most important point for analyzing the world economy and international politics. Undoubtedly, the international energy landscape depends on how the two countries and their relations will evolve. For Japan, bilateral relations with the United States and China respectively are of crucial importance. In this sense, U.S.-China relations have the most important implications for Japan. Accurate analysis on the current and future U.S.-China relations and the development of a strategy based on the analysis are indispensable for considering Japan's policies on foreign affairs, economic measures, energy security and global warming.

Contact: [report@tky.ieej.or.jp](mailto:report@tky.ieej.or.jp)

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