



SPECIAL REPORT

2301 Constitution Ave., NW • Washington, DC 20037 • 202.457.1700 • fax 202.429.6063

ABOUT THE REPORT

With the unprecedented, large-scale global challenges confronting the international community, there is a growing need for China and the United States to cooperate. While China emphasizes respect for its core interests and major concerns, the United States puts a premium on bilateral cooperation in areas of common interest. The challenge lies in understanding each side's position and building a bridge between them. In addressing these questions, Wu Xinbo presents a distinct perspective on U.S.-China relations not commonly heard outside China. The Institute's Center for Conflict Management commissioned this special report as a series on the evolving Sino-U.S. relationship. This series will focus on avoiding crises and exploring opportunities for Sino-U.S. cooperation.

ABOUT THE AUTHOR

Wu Xinbo, a 2006–07 Jennings Randolph senior fellow at the United States Institute of Peace, is currently professor and deputy director at the Center for American Studies and associate dean at the School of International Relations and Public Affairs, Fudan University, Shanghai. Professor Wu is the author of *Dollar Diplomacy and Major Powers in China, 1909–1913*, the award-winning *Turbulent Water: U.S. Asia-Pacific Security Strategy in the Post-Cold War Era*, *New Landscape in Sino-U.S. Relations in the Early 21st Century*, and *Managing Crisis and Sustaining Peace between China and the United States*. He has published numerous articles and book chapters.

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Wu Xinbo

China and the United States

Core Interests, Common Interests, and Partnership

Summary

- In an era of increased economic interdependence and shared security issues, it is vital that China and the United States become genuine partners, based not on shared ideology or traditional geopolitical interests, but on the needs of global governance. This, however, requires both countries to respect the other's legitimate core interests; if they do not, the resulting distrust and misinterpretation of intentions make cooperation less likely.
- To date, China has emphasized protection of its core interests, while the United States has emphasized developing areas of common interest while maintaining its expansive approach to foreign policy. This difference in emphasis has set up both areas of friction and possibilities for greater interaction.
- China's interests in Taiwan, Tibet, and Xinjiang lies at the heart of its national security concerns and their management is considered fundamental to the country's survival and development. As China has declared, continuing U.S. involvement with these issues is viewed as a challenge to China's core interests. If the United States eases its policies toward China's core interests, this could, in turn, encourage China to respect U.S. core interests and foster cooperation as China's material power and international influence are both growing.
- Developing common interests, meanwhile, can create more momentum for the two countries to manage and resolve their differences. Potential areas for successful cooperation include building a permanent peace mechanism on the Korean Peninsula; helping to secure strong, sustainable, and balanced global economic growth; and bringing about a global arrangement on creating an international environmental regime.

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After a relatively smooth first year, the second year of Sino-U.S. relations under the Obama administration has been more turbulent. The reasons—the U.S. arms sale to Taiwan, Obama's meeting with the Dalai Lama, and U.S. military exercises on China's periphery—are not new; they all reflect the continuity of U.S. policy toward China and the region. However, given the changing circumstances for bilateral relations, including a more symmetrical economic interdependence between the two countries and an urgent need for Sino-U.S. cooperation in dealing with a wide range of international and global issues, such inertia in U.S. foreign and security policy may undermine the prospects for building such cooperation, and more broadly, a positive and comprehensive Sino-U.S. partnership in the future.

Both Beijing and Washington have written out their respective prescriptions for managing bilateral relations. China has emphasized that each country must respect the other's central policy priorities, while the United States puts a premium on bilateral cooperation in areas of common interest. Chinese president Hu Jintao, while attending the nuclear security summit held in Washington, DC, in April 2010, told President Barack Obama that "China and the United States should respect each other's core interests and major concerns. This is key to the healthy and stable development of bilateral ties." For his part, Obama stressed that "the strengthening of cooperation and the building of partnership between the two countries are not only in the interests of both countries, but also of the world."¹ The views of both sides have merit. Given the unprecedented global challenges confronting the international community, there is a growing need for China and the United States to cooperate, and the prospect exists for forging a Sino-U.S. partnership to address common concerns. However, there are real differences between the two countries, and not only over concrete issues; they also involve guiding principles for and approaches to bilateral ties. The challenge lies in understanding each side's position and building a bridge between them. Why does China stress respect for its core national interests? How can the two countries expand common interests between them? What adjustments should each side make to forge a genuine partnership?

Respecting Core Interests

During President Obama's visit to China in November 2009, the two countries, after a long and tough negotiation, issued a joint statement holding that "the two sides agreed that respecting each other's core interests is extremely important to ensure steady progress in China-U.S. relations."² For China, such core interests include the situations in Taiwan, Tibet, and Xinjiang, where secessionist momentum challenges not only China's territorial integrity, but also the legitimacy of the Chinese Communist Party as the ruling party of China. Given the U.S. security commitment to Taiwan under the Taiwan Relations Act of 1979, its long-held policy of arms sales to the island, its support of the Dalai Lama, and its relations with activists in Xinjiang's secession from China, it is no surprise that Beijing has urged Washington to handle its interests with great sensitivity. It is also not the first time that China emphasized its core interests in an official document with the United States. In October 1997, during President Jiang Zemin's visit to the United States, the two sides issued a joint statement that "China stresses that the Taiwan question is the most important and sensitive central question in China-U.S. relations, and that the proper handling of this question in strict compliance with the principles set forth in the three China-U.S. joint communiqués hold the key to sound and stable growth of China-U.S. relations."³ The phrase *core interest* was not used, but Beijing clearly demanded that Washington deal carefully with Taiwan.

It is normal for a country to protect its core interests in its foreign relations. In diplomatic negotiations, these interests define the red lines that cannot be crossed without inflicting serious damage to bilateral ties. Clearly stating core interests sends a message to

other countries that violating them, even inadvertently, could lead to an otherwise avoidable conflict. In dealing with the United States, China has emphasized its core interests for several reasons. Beijing has believed that some of Washington's actions, such as the abovementioned arms sales to Taiwan and involvement in Tibetan and Xinjing issues, have challenged and even damaged China's core interests from time to time. China's stature in the world has grown, but the Sino-U.S. balance of power still favors the United States, and while there are many interests that China wants to promote in its U.S. relations, both Chinese elites and the public would regard diplomacy toward the United States as a failure if its core interests were undermined in the process. At the same time, China's emphasis on its core interests reflects its growing confidence in its U.S. interactions. As China strengthens materially and its international influence expands, Beijing has obtained more leverage to bargain with Washington, and it believes that it deserves more respect and accommodation from the U.S. when it comes to China's priority concerns.

China's efforts to stress the issue of core interests to the United States have not wavered. In the negotiation over the joint statement to be issued during President Hu's visit to the United States in January 2011, the U.S. negotiator was instructed not to agree to put into the document the phrase *core interests*, which, as a result, did not appear in the joint statement released on January 19, 2011.⁴ However, this does not mean that the Chinese side changed its position on the issue. The joint statement states that "the two sides reaffirmed respect for each other's sovereignty and territorial integrity,"⁵ which are exactly what the Chinese side emphasized under the name of core interests in the joint statement of 2009. The following sentence—"the Presidents further reaffirmed their commitment to the November 2009 China-U.S. Joint Statement"—also suggests that the previous bilateral agreement on "respecting each other's core interests" still exists. Furthermore, Chinese vice foreign minister Cui Tiankai, who oversees U.S. relations, stressed in his speech delivered right before President Hu's U.S. trip that "respect for each other's core interests and major concerns constitute the foundation of our relationship if it is to make steady and solid progress in the long run."⁶ Most important, President Hu, in his remarks at the official arrival ceremony held for him by President Obama on January 19, 2011, reminded the U.S. side that "China and the United States should respect each other's choice of development path and each other's core interests."⁷ Obviously, after the turbulences in Sino-U.S. relations in 2010, Beijing has become even more adamant in securing U.S. respect for China's core concerns.

From time to time, policy elites in the United States try to sort out U.S. national interests by significance: vital, extremely important, important, less important or secondary, and the like.⁸ This categorization of interests mainly guides the building of consensus and distribution of resources internally rather than sending a signal externally, as not many countries can threaten U.S. core interests credibly. That said, from China's perspective, the United States, with its superiority in power, appears to define its national interests expansively and to pursue them whether it is at the expense of others' interests or not. The United States does not seem to appreciate it when other countries assert their own priorities; doing so, it appears, is tantamount to constraining U.S. ability to push its own interests. The differences in the Chinese and U.S. approaches to foreign policy help explain why, in Sino-U.S. relations, quarrels arise from time to time over alleged U.S. violations of China's core interests: Beijing is always vigilant regarding expansive U.S. actions.

Expanding Common Interests

While China will continue to defend its core interests from U.S. violations, Washington is unlikely to fully respect China's priorities as Beijing wishes. To alleviate some of the tension that this creates, it is important that the two sides continue their efforts to expand their

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common interests as much as they can. Fortunately, for the purposes of improved Sino-U.S. relations, the common priorities between China and the United States have grown rapidly and generated greater impetus to closer bilateral ties, creating momentum for the two countries to manage and gradually resolve their differences. In the coming decade, if both Beijing and Washington can cooperate effectively and productively in major issue areas and greatly expand their common interests, the prospect for a Sino-U.S. partnership will be much brighter. Cooperation could be most fruitful in addressing major regional or global issues where both China and the United States can be significant actors, both Beijing and Washington have common interests in resolving or managing the problems, and finally, there are no significant policy differences between the two countries that may prevent cooperation. Three such issues are building a permanent peace mechanism on the Korean Peninsula; helping to secure strong, sustainable, and balanced global economic growth; and bringing about a global arrangement for environmental concerns.

Building a Permanent Peace Mechanism on the Korean Peninsula

The Sino-U.S. confrontation began on the Korean Peninsula, and the Korean War gave rise to the Cold War in Asia; today, the tension on the peninsula, along with the separation across the Taiwan Strait, stands as that conflict's last legacy. Taiwan's future increasingly depends on the interactions between the two sides of the strait, but the situation on the Korean Peninsula is very much subject to the influence of external actors, particularly China and the United States.

Almost sixty years after the end of the Korean War, the peninsula remains one of the most heavily militarized regions in the world. The military confrontation between North Korea on one side and South Korea and the United States on the other makes it one of the most dangerous spots on earth. With North Korea's procurement of nuclear weapons, the situation is even more precarious. As we have seen, the U.S. military exercises following the *Cheonan* incident in Northeast Asia caused tensions in Sino-U.S. diplomatic and security relations.⁹ A military conflict on the peninsula, the possibility of which cannot be ruled out completely, would inflict heavy casualties on the peninsula, destabilize the entire region, and have disastrous effects on major power relations.

Creating enduring and reliable peace on the peninsula serves the interests of both China and the United States. For China, a stable periphery in Northeast Asia would lessen the security pressure arising from this direction and create a favorable environment for socioeconomic development in its own northeast. The end of confrontation on the Korean Peninsula also would reduce the risk of Sino-U.S. conflict in this part of the world. For the United States, peninsular peace would help promote the security of its allies in the region, curtail its security responsibilities in Northeast Asia, and remove the risk of fighting another Korean War.

To establish a permanent peace mechanism on the peninsula, first, it is important to adopt a broad conceptual picture of the Korean issue, major parts of which are the continuation of Cold War-era policies. Since the end of the Cold War, too much attention has been paid to the North Korea nuclear issue—a result of the lack of institutionalized peace on the peninsula, not vice versa. The same can be said of the sporadic conflicts between the north and the south, including the *Cheonan* incident. Second, a diplomatic approach is preferred to a military one. The price of using force is extremely high, and for North Korea, confronted by U.S. and South Korean military pressure for more than half a century, military deterrence has a limited effect. Third, engagement and inducement are preferred to sanctions and pressure. Many if not all of North Korea's apparently irrational external actions could be attributed to its strong sense of insecurity. Sanctions and pressure can

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only worsen this sense, leading to more irrational behavior. Engagement and inducement, meanwhile, could improve North Korea's sense of security and build trust with other major players, particularly South Korea and the United States, hopefully making Pyongyang more cooperative and less stubborn.

Operationally, the four parties to the Korean War—China, the United States, and the two Koreas—should restart the Four-Party Talks (FPT) that ran from December 1997 to August 1999.¹⁰ The new talks should focus on reducing the tension on the peninsula and replacing the truce agreement signed in 1953 with a formal peace mechanism that would formally terminate the state of war and renounce the use of force to resolve disputes on the peninsula in the future. China and the United States have important roles to play in the process, from providing initiatives to restart the talks to helping set the agenda and navigating the negotiations through turbulent waters to finally signing up to the new peace treaty.

In parallel, the Six-Party Talks (SPT) could continue to work on the denuclearization issue, albeit with a reduced load. In July 2007, all six parties agreed to set up five working groups to pursue various goals: denuclearization, economic and energy cooperation, normalization of North Korea-U.S. and North Korea-Japanese relations, and peace and security in Northeast Asia. While the other working groups should continue to work within the framework of the SPT, responsibility for the peace and security group can be shifted to the FPT. With both the FPT and the SPT in operation, Beijing and Washington could lead international efforts on the Korean issue in addressing both the nuclear problem and the broader issue of establishing a peace mechanism, strengthening a common Sino-U.S. interest in the process.

Securing Strong, Sustainable, and Balanced Global Economic Growth

The financial crisis originated in the United States in the fall of 2008 and revealed many shortcomings in the current world economy at both the microeconomic and macroeconomic levels, from the slack financial oversight in the United States and the dereliction of duty by international financial institutions to the American public's overspending and China's oversaving of foreign currency. Since the crisis, the greatest challenge has been in securing strong, sustainable, and balanced global economic growth—a key goal agreed upon at the third Group of Twenty (G-20) financial summit, held in Pittsburgh in September 2009. China and the United States must act cooperatively to advance this goal, and both countries can play important and unique roles in the process. They are the world's two largest economies. In 2010, they together contributed over 40 percent to the growth of the global economy.¹¹ Moreover, as the largest developed and developing countries, the development models of the United States and China, respectively, affect countries in their own categories. Finally, it is in both Chinese and U.S. interests to secure strong, sustainable, and balanced global growth, given the two economies' high degree of interdependence as well as their deep integration with the world economy generally.

Sino-U.S. economic cooperation must occur unilaterally, bilaterally, and multilaterally. Unilaterally, China—as it already started to do during the financial crisis—should further boost its domestic consumption to adjust its long-pursued export-oriented development model. It also should base its economic growth more on technological progress and gradually reduce its dependence on low-end manufacturing industries, which have consumed too many resources and heavily polluted the environment. For its part, perhaps obviously, the United States must get its public to save more and borrow less—a task that is as important as it is difficult. As the Obama administration has realized, it is also necessary to emphasize the real economy (such as the manufacturing industry, dealing with material products) and reduce reliance on the virtual economy (such as finance, dealing with nonmaterial products).

Bilaterally, both China and the United States should resist the temptation of trade protectionism. Since President Obama's first year in office, trade frictions between China and the United States have risen remarkably,¹² and with high unemployment rates as well as the Obama administration's political ties to trade unions, protectionist pressure is felt strongly and acutely. However, a trade war with China would hurt the U.S. economy in many ways, from reducing the import of products of U.S. companies that have relocated their production bases to China to suspending China's buying and holding of U.S. treasury bonds. Sino-U.S. trade has been largely complementary and generally does not threaten major domestic industries on both sides. These should not be sacrificed in trying to alleviate domestic economic problems, particularly on the U.S. side. Robust bilateral trade is crucial to the healthy development of Sino-U.S. economic relations and underpins bilateral political relations as well.

Direct investment is an important part of bilateral economic ties. U.S. investment in China started in 1980 and reached \$59.65 billion by 2008 in accumulative terms. Despite the financial crisis, U.S. companies invested in 1,530 projects in China in 2009, with an actual utilization of about \$2.56 billion.¹³ However, starting in 2009, U.S. companies began to complain loudly about the changing investment environment in China.¹⁴ Given the importance of foreign direct investment (FDI) to China's economic development, it is essential that their legitimate concerns are addressed seriously. Meanwhile, fueled by the world's largest foreign currency reserve and endorsed by the government's go-abroad strategy, Chinese firms recently have sought opportunities for overseas investment more actively. In 2009, Chinese direct investment in the United States reached \$620 million,¹⁵ a figure that is relatively small compared with U.S. direct investment in China, but increasing rapidly, as one recent research pointed out, "FDI from China to the United States is now more than doubling *annually*."¹⁶

Yet Chinese investors do not regard the investment environment in the United States as encouraging. After the passage of the Foreign Investment and National Security Act of 2007, the U.S. Department of the Treasury promulgated its rules of implementation in November 2008, involving regulations pertaining to mergers, acquisitions, and takeovers by foreign persons. It has subjected to review transactions involving infrastructure, energy, and crucial technologies affecting U.S. national security, and has also set strict rules on foreign investment. In the eyes of Chinese companies, the new regulations create many obstacles to foreign investors.¹⁷ More generally, from the failed bidding of the China National Offshore Oil Company (CNOOC) for U.S. oil company Unocal in 2005¹⁸ to the recent controversy over Chinese steel company Anshan Iron and Steel Group's investment plan in a U.S. steel plant,¹⁹ Chinese investors are increasingly concerned about the political and security influences on the U.S. opposition to Chinese investment. Given the real and potential benefits of Chinese FDI in the United States, such as creating more job opportunities and reducing bilateral trade imbalances, Chinese investors should not be deterred by investment protectionism in the United States, institutionally or culturally.

U.S. export control to China is another area for improvement. Since the 1950s, China has been a main target of U.S. export control. However, since the improvements in Sino-U.S. ties starting in the 1970s, U.S. export control policy toward China has been adjusted many times. The issue became more salient in recent years due partly to the George W. Bush administration's stepped-up export control measures against China and partly to the growing trade imbalance between the two countries. China deems strengthened U.S. export control as unfair, since it is probably the only major U.S. trading partner to be brought under such strict restrictions. Beijing complains that

it usually takes three months to half a year and sometimes even eighteen months to obtain a license for exports to China, much more lengthy than in other countries, such

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as Germany and Japan, where two or three weeks to a month is enough. Besides, in the process of obtaining an export license, reviews will be carried out by the U.S. concerned authorities whenever necessary, and additional clauses on end-user are attached in commercial contracts.²⁰

Whenever Washington has accused Beijing of having a hand in its mounting trade deficit with China, Beijing invariably refutes it by saying that U.S. export control policy contributed to it. The American Chamber of Commerce in China endorses this argument, estimating in a survey that U.S. companies lost billions of dollars annually in sales to foreign rivals in China due to Washington's export controls.²¹ The Obama administration indicated that it would review U.S. control policy with a view toward relaxing some export control measures against China as appropriate, but this has been slow in coming. Loosening export controls certainly would enhance U.S. export to China and help reduce trade imbalance. It would also send an important political signal that Washington is serious in seeking to develop a partnership with China.

Multilaterally, in the postcrisis period, China and the United States should work to build a fair, equitable, inclusive, and well-managed new international financial order and maintain an open and free world trade system. Reforming the international financial system includes increasing the representation and voice of developing countries, improving the existing decision-making process and mechanism, and reforming the international financial supervisory and regulatory regime. Continued progress depends largely on effective cooperation between Beijing and Washington. At the Pittsburgh G-20 summit, leaders pledged to move toward ending the Doha Development Round, which would greatly promote the process of global trade liberalization. China and the United States should make joint efforts to realize this goal, even though it is quite a challenge to the Obama administration, given the serious unemployment situation in the United States. Finally, with the G-20 becoming the premier forum for international economic cooperation during crises, China and the United States should continue to work closely to build it as an institution and ensure its central role in promoting international economic cooperation and global economic governance. Effective cooperation between China and the United States in promoting global governance will broaden common interests, enhance mutual trust, and even reduce the effect of their bickering over core interests on their overall relationship.

Creating a New Environmental Regime

Developments in manufacturing since the Industrial Revolution over two centuries ago promoted economic growth and improved people's standards of living, but also seriously harmed the environment across the world. Climate change, partly attributed to carbon dioxide emissions, has raised the urgency of creating a new international environmental regime, involving greater use of clean energy, environmental protections, and amelioration of the damage already done. Such a regime would alter modes of production and lifestyles worldwide.

As the largest energy consumers and greenhouse gas emitters, China and the United States are undoubtedly the two crucial players in creating a new environmental regime. According to one estimate, in 2007, the United States accounted for about 20 percent of the world's total energy-related carbon dioxide emissions while China accounted for 21 percent.²² At least at the international level, both sides seem to understand the seriousness of the issue as well as the need for individual and joint efforts. In a joint statement, the two countries agreed that "a vigorous response is necessary and that international cooperation is indispensable in responding to this challenge."²³ Both Beijing and Washington have begun work to increase the use of clean energy as well as develop new energy sources. Though China is arguably the world's largest greenhouse gas emitter, it also ranks first in installed hydroelectric power capacity, nuclear power capacity under construction, the coverage of

solar water panels, and photovoltaic power capacity.²⁴ Meanwhile, since Obama entered office, the United States has become more active in developing its green economy. The two countries have also agreed to cooperate in a wide range of areas related to energy and the environment,²⁵ establishing the China-U.S. Energy Research Center and launching the China-U.S. Electric Vehicles Initiative.

However, as the Copenhagen Conference indicated, China's and the United States' shared interests in combating climate change and transitioning to an economy that uses fewer fossil fuels does not mean that they can reach an agreement on a specific international arrangement, or that reducing their own greenhouse gas emissions is easy, politically or culturally. The crux of the issue is the respective responsibilities that each will shoulder, especially as China and the United States are starting from different points in taking mitigating actions. China's carbon dioxide emissions so far have been largely a function of its economic growth—that is, the major source of emissions is industrial—and as a developing country undergoing industrialization and urbanization, China is trying to ensure that its mitigation responsibility does not undermine its economic and social development. In considering the United States, however, Beijing perceives that U.S. citizens' lifestyles—living in big houses and driving luxurious, fuel-inefficient cars—have contributed greatly to overall U.S. emissions,²⁶ and believes that adjustments in this regard do not pose a major threat to its economic growth. This perception explains part of China's reluctance at the moment to set its peak time of emission or emission reduction targets: If the United States will not significantly reduce emissions, even when it is not economically painful to do so, why should China? The Chinese complaint may not be entirely accurate, as activities related to industry and electric power generation still produce significant shares of U.S. carbon dioxide emissions.²⁷ But the United States, as the largest developed economy, should be more sympathetic with the pressure that China bears in developing its economy and raising the living standards of its people. U.S. political elites should make more serious efforts to reduce the country's own greenhouse gas emissions as well as provide assistance to others to do likewise.

China is the most vigorous major developing country in reducing greenhouse gas emissions and deserves recognition and reward.

Moreover, despite its size and immense share in global economic activity, China is still in many ways a developing country. Its environmental record may be found wanting when compared with the European Union, but not when compared with other large developing countries, such as India or Brazil. China is the most vigorous major developing country in reducing greenhouse gas emissions and deserves recognition and reward from developed countries for this, including financial assistance, technology and capacity-building support, and market access. This could help stimulate other developing countries to follow China's example in emission reduction. That said, China should be more conscious of its status as the largest greenhouse gas emitter and its role as a major player on the international stage. While making serious domestic efforts in cutting its carbon emission, Beijing should also work harder to promote international accord on environmental issues. At the Cancun climate change conference held in December 2010, China made strides to make its commitments more measurable, reportable, and verifiable, setting a good example for developing countries. It should stay in close consultations with them and lead them in transitioning to a low-carbon economy, while simultaneously acting as a bridge between the developing and developed worlds, helping forge a deal between them.

Meanwhile, even as the Obama administration has adopted a more active attitude than the previous administration toward combating climate change, in taking mitigating action, Washington appears to be progressive internationally while conservative internally; in promoting international cooperation, Washington is politically enthusiastic but economically and technologically reluctant. Among developed countries, the European Union, not the United States, leads efforts to seek an international accord on addressing climate change.

This obviously contradicts the United States' self-assumed leadership position in the world. The Obama administration should make more serious efforts both internally (e.g., pushing Congress to pass the American Clean Energy and Security Act) and externally (e.g., providing financial and technological assistance to developing countries in their emission-reduction efforts) to foster an international regime that encourages all countries to lower their greenhouse gas emissions and implement other policies that benefit the environment. A more progressive U.S. policy in managing climate change could drive China to make even more rigorous efforts unilaterally and multilaterally.

Active Sino-U.S. cooperation and leadership in the making of a new international environmental regime could depart from the traditional political and economic themes of international affairs, suggesting new avenues for further partnership while creating universal and enduring benefits for the international community. During the latter part of the Cold War, China and the United States cooperated in checking Soviet expansion for the sake of regional and global peace and stability. Today, creating a healthier living environment for humankind is arguably the most important challenge of the century; there is no alternative to making a difference. Successful Sino-U.S. leadership in this regard could contribute to forging a greater partnership between the two countries generally. If respect for each other's core interests is one leg of the partnership, development of common interests is the other. They work to support each other and move bilateral relations forward.

Forging Partnership

If developments in the first decade of the twenty-first century tell us anything about the future of Sino-U.S. relations, one thing should be clear: As China has become a major global player, and as the international community faces a series of political, economic, and environmental challenges, China and the United States have to become genuine partners, not based on shared ideology or traditional geopolitical interests, but on the needs of global governance. China and the United States need not establish a formal group, as in the proposed G-2,²⁸ but they do need to provide strong and effective global leadership through substantial and enduring cooperation. If Beijing and Washington cannot develop a mature partnership in the next decade, it will be a major setback not only for both countries, but also for the international community.

Cooperation between China and the United States must begin, however, with each party's greater respect for the other's legitimate core interests. As President Hu Jintao emphasized, "China and the United States differ in national conditions, and it is only natural that the two sides may disagree on some issues. What is important is to respect and accommodate each other's core interests and major concerns, appropriately handle the sensitive issues and strengthen the foundation of mutual trust."²⁹ U.S. dealings in areas of China's core interests affect China's judgment of U.S. strategic intention. Further, although the United States has a greater ability to affect China's core interests than vice versa, China's economic capability and international influence are increasing rapidly, and are more and more capable of affecting U.S. core interests. The United States is thus doing itself a favor in respecting China's core interests, as this can encourage China to reciprocate while its material power and international influence grow. Finally, as the world's two largest economies and as permanent members of the UN Security Council, both countries should not allow their bilateral differences to obstruct cooperation in multilateral contexts or preclude the opportunity to provide public goods, such as promoting regional and global security, securing a robust international economic system, and creating a better international environmental regime.

Perhaps most important, however, is to keep an open mind to new thinking in fostering cooperation and creating areas of common interest. The global political and economic

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landscape is changing rapidly: The Sino-U.S. relationship is evolving constantly as China becomes stronger and more confident and the two countries become more deeply interdependent. For Beijing and Washington, the challenge of better managing bilateral relations lies in how quickly and effectively they can adjust their respective thinking and policies as conditions change. After the Cold War, when the United States prioritized the nonproliferation of weapons of mass destruction in its national security agenda and pushed China on this issue, Beijing, originally not so forthcoming and accommodating to U.S. concerns, came to realize the importance of the issue to U.S. core interests as well as international peace at large. Beijing then adjusted its policy and practice, removing a major obstacle to bilateral relations. Today, a major challenge for the United States lies in overcoming its old thinking and policy inertia to improve relations with a rising and rapidly changing China. For example, its long-held policy of arms sale to Taiwan should be reexamined: The rationale for maintaining a balance of power across the Taiwan Strait is outdated, and China tolerates it less and less. Easing the U.S. position on this issue could open the door to cooperation on many others, from trade to the environment, and greatly enhance the prospect of Sino-U.S. partnership in the twenty-first century.

Notes

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