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Summit Shows Superpowers' Shifting Dynamic

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BEIJING—The most wide-ranging dialogue in the history of modern U.S.-China relations ended with some accord on contentious issues of currency and trade, but underlined a fundamental shift in the relationship between Washington and a newly assertive Beijing.

Although China offered few major concessions in two days of discussions at the annual Strategic and Economic Dialogue, which ended on Tuesday, the U.S. praised the outcome.

China pledged to gradually reform its currency-exchange rate, but without offering any timetable. On Beijing's drive to promote "indigenous innovation," which foreign companies fear is a protectionist ploy, China held out hope of a resolution within the World Trade Organization—repeating a pledge it had made before. And Beijing promised to "work together with the U.S. and other parties" to resolve the crisis over allegations that North Korea torpedoed a Southern patrol vessel, but it gave no specifics.

"This is progress," said U.S. Treasury Secretary Timothy Geithner, referring to China's response to American complaints about "indigenous innovation" policies that threaten to exclude foreign companies from a government-procurement market worth billions of dollars each year. "It does not fully resolve our concerns, but it gives us a set of basic principles on which to move forward," he told a closing ceremony at the Great Hall of the People.

The optimistic language reflects an upturn in what is arguably the most important bilateral relationship in the world, but also masks U.S. frustration with China's engagement on several fronts. The Obama administration's early expectations for an all-embracing and energetic partnership, with the potential to address global challenges such as climate change and reshape the world economy, has been tempered by plodding progress on key issues.

Pressure is likely to grow on Mr. Geithner to secure more than just soothing words from Beijing on the yuan. U.S. lawmakers may allow China more latitude given the sovereign-debt crisis in Europe and the fall in the value of the euro, which have combined to damage Chinese exports to its largest market. But lawmakers who say China is weakening its currency to benefit exporters are likely to press for it to be formally declared a currency manipulator if there is no movement by Beijing.

U.S. Secretary of State Hillary Clinton alluded Tuesday to tensions in the relationship, citing China's furious reaction to U.S. arms sales to Taiwan, which China regards as a renegade province, and to President Barack Obama's meeting with the Dalai Lama. Beijing accuses Tibet's spiritual leader of fomenting independence for the Himalayan region.

"In an earlier era we might have experienced a lasting setback," she said. "This dialogue...helped put us rapidly back on a positive track." Chinese Vice Premier Wang Qishan had a similar spin: "We are now able to manage the differences and problems arising in the course of our relationship in a more rational and mature manner," he said.

The choreographed theater surrounding the dialogue, which involved some 200 U.S. officials, illustrated China's new sophistication in managing its public image. Without any significant compromise, the Chinese government garnered plaudits from top U.S. officials and signaled to a domestic audience its new importance in global affairs.

For its part, Washington's gestures of gratitude were partly designed to give cover to Chinese officials as they prepare to give real ground on issues such as the currency-exchange rate.

Instead of openly prodding China over issues such as currency, U.S. officials are pursuing patient diplomacy, offering China wide latitude to set its own timetable. In part, this reflects the reality that Chinese officials are less likely to budge if they are seen by a domestic audience to be caving to American pressure.

Iran illustrates the opportunities and the limits of the collaboration. Even though Washington won Beijing's agreement on a draft United Nations sanctions resolution against Iran this month, it did so only after watering down its original proposal to suit China, making it appear that China was a reluctant follower and sending an ambiguous signal to Tehran about Chinese resolve.

In Beijing, the gap between Chinese and U.S. strategic interests was on stark display over North Korea. On Tuesday, Mrs. Clinton said the U.S. and China must "work together to address the crisis provoked by the sinking of a South Korean ship," referring to North Korea's alleged torpedoing of a patrol vessel in March.

Chinese State Councilor Dai Bingguo wouldn't be drawn out, offering only stock phrases of concern. "Relevant parties should proceed on the basis of safeguarding the overall interest of peace and stability in the region and calmly and appropriately handle the issue and avoid escalation of the situation," he said.

Later, Vice Foreign Minister Cui Tiankai went slightly further, offering to "work together with the U.S. and other parties and continue to stay in close touch on the situation in the Korean peninsula." China has yet to comment on the findings last week of an international investigation that the Cheonan corvette was sunk by a North Korean torpedo.

Whatever differences were aired behind closed doors at the dialogue were papered over in public remarks. Mr. Geithner gave a positive assessment of China's response to virtually the entire list of prominent complaints that the U.S. brought to the meeting.

He singled out China's commitment to submit a revised offer to join the WTO Agreement on Government Procurement by July, a move that would apply international standards to the Chinese government's purchases from the private sector, including foreign companies. China missed a similar self-imposed deadline in 2009 after the first Strategic and Economic Dialogue in Washington.

The U.S. State Department announced a list of 26 specific results from the dialogue, which ranged from training for maritime search and rescue operations to a safety accord for nuclear reactors to a conference on illegal logging.

U.S.-China relations started to mend in April after a one-hour telephone call between Messrs. Obama and Hu, which was followed by Mr. Hu's trip to the U.S. to attend a nuclear-security summit.

Both sides have made concessions. The U.S. Treasury department delayed a crucial decision on whether to label China a currency manipulator just prior to Mr. Hu's April trip to Washington. The Obama administration is planning to ease controls on some high-tech exports, a move long sought by China.

Leaders of the U.S. delegation went out of their way to add a homey touch to their serious business in Beijing. On Sunday, Mr. Geithner played basketball with Chinese high school students before he and Mrs. Clinton sat for a joint interview on the Chinese-language Phoenix TV channel. The host, Chen Luyu, teased Mr. Geithner by asking him whether he is really "one of the best looking guys in the administration," and got Mrs. Clinton to talk about her and her husband's taste in movies (she likes romance, he likes action).

After the dialogue, said Eswar Prasad, a professor at Cornell University and former head of the China desk at the International Monetary Fund, "both sides can claim victory for having raised their concerns clearly and making progress on issues their respective domestic constituencies care about."

On the yuan's exchange rate, President Hu Jintao on Monday went no further than to repeat a longstanding pledge to gradually implement reform. Some in the U.S. argue that Beijing, by keeping the yuan pegged to the dollar, weakens its currency to aid Chinese exporters, to the detriment of U.S. manufacturers. Yet Mr. Hu's comment was sufficient to elicit a warm response from the U.S. side. China's Assistant Finance Minister Zhu Guangyao said that Mr. Geithner had characterized Mr. Hu's comments on the yuan as "very, very, very" encouraging and important. There was no immediate confirmation from the U.S. side on the accuracy of Mr. Zhu's portrayal. Mr. Geithner has been at pains to argue that exchange-rate reform is in China's own interest, and up to China to decide. Whether China makes a move, he said on Tuesday, "is, of course, China's choice."

—Deborah Solomon contributed to this article.

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