

Impressions from the 2011 U.S.-China Strategic & Economic Dialogue



Ira Kasoff
Senior Counselor
APCO Worldwide

The third annual U.S.-China Strategic and Economic Dialogue (S&ED) was held in Washington, D.C., May 9-10, 2011. The Bush Administration began the U.S.-China Strategic Economic Dialogue (SED) in 2006; the Obama Administration made a subtle but important change in the name when they added a separate geopolitical or “strategic” track, chaired by Secretary of State Hillary Clinton, to the high-level economic discussions that had been chaired by former Treasury Secretary Hank Paulson and are now chaired by his successor, Tim Geithner. >>

At this early stage, it is hard to assess this year’s S&ED objectively, as a look at some of the headlines makes clear. They cover the gamut, from “U.S., China clash on rights deepens as talks wrap up” (AFP) to “U.S., China reach ‘milestone’ agreement on security, economic policy” (Washington Post). Further illustrating the difficulty of assessing the results, the Treasury Department, which leads the economic track, issued two “fact sheets” following the meeting: a unilateral U.S. Fact Sheet (“The 2011 U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet – Economic Track”) and a Joint Fact Sheet, negotiated and agreed to with the Chinese (“The Third Meeting of the U.S.-China Strategic & Economic Dialogue Joint U.S.-China Economic Track Fact Sheet”). Needless to say, the two “fact sheets” differ in content, thus making real outcomes even more difficult to ascertain. But as is always the case in discussions with China, the key will be in how commitments are implemented. And that, of course, will only become clear over time.

Nevertheless, it is safe to say that the meeting did produce some results. On the strategic side, probably the most important

outcome is that the United States and China committed to improve cooperation in military relations. The People's Liberation Army cut off ties with its U.S. counterpart in January 2010 after the Obama administration announced a \$6.4 billion arms package for Taiwan, and they rejected a planned trip by Defense Secretary Gates last June. (He was finally permitted to visit this past January.) The S&ED continued this mild thaw, as the two sides agreed that their top military leaders would meet regularly in a new "Strategic Security Dialogue" as part of the S&ED. Representatives of the Chinese military were already part of the Chinese delegation at this session. In addition, the United States and China agreed to continue some other important

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bilateral dialogues, including committing to hold the 8th U.S.-China Counterterrorism Consultation this year and to hold the next rounds of the Security Dialogue and the Nonproliferation Dialogue prior to the next S&ED.

In the economic track, China pledged to improve its intellectual property rights protection and enforcement mechanisms; to strengthen measures to ensure that the software being used by government agencies at all levels is legitimate; and to strengthen cooperation on software legalization. China also pledged to de-link government procurement from its "indigenous innovation" policies. While these commitments are important, careful observers will note that they are essentially restatements of commitments made at the December U.S.-China Joint Commission on Commerce and Trade (JCCT), or during the January visit by Chinese President Hu Jintao. Also in this category would be China's pledge to issue a measure this year requiring that all proposed trade- and economic-related rules and regulations be published on the State Council Legislative Affairs Office website for a public comment period of at least 30 days. Although this is a reaffirmation of a commitment made at the 4th SED, in June 2008, it means China will codify in writing this important requirement, which has been carried out inconsistently at best since 2008.

To repeat, the key to assessing the success of talks with China lies in how commitments are implemented – to the extent the reaffirmations of previous commitments, or codifying in writing commitments that had not been honored, move us closer to more

effective implementation, that can be considered real progress. In addition to repackaging, or fleshing out, prior promises, some other commitments, although positive in tone, are quite vague. For example, China committed to "further open the service sector to U.S. and other foreign involvement, and to encourage capital investment in services by both public and private firms." Sounds good, but what exactly does it mean? It does appear, however, that there were some new commitments in the financial services area. For example, China committed to allow U.S. and other foreign banks to sell mutual funds in China, and they also pledged to advance toward allowing U.S. and other foreign insurance companies to sell mandatory third-party liability auto insurance in what is now the world's largest market for automobiles.

In sum, it is too early to make a thorough assessment of these talks. In this regard it is interesting to look at the restrained response of key business organizations. The U.S. Chamber of Commerce was cautious in their appraisal, saying in a statement that the agreements reached this week "have the potential to bolster the confidence of American investors" after a year in which businesses have expressed concern about China's direction. Even the U.S.-China Business Council (USCBC), generally more bullish on U.S.-China relations, was only guardedly positive, coming out with some frank wording on the difference between promises and results, especially on government procurement, apparent openings in auto insurance and strengthened enforcement of intellectual property rights protection. USCBC President John Frisbie said in a statement, "Software piracy has been a serious concern for many American businesses, especially for the innovative U.S. software manufacturers that are members of USCBC. We need to make sure the inspections are done credibly and transparently – if so, greater sales should result."

Based on my own experience (I participated in all of the previous SEDs and S&EDs), from reading the various fact sheets and from an informal read-out from participants, the meeting appears to have been somewhat contentious, perhaps more so than in the past – the Chinese are growing increasingly self-confident and less willing to make concessions, and the U.S. side feels the pressure to make progress on both the economic front and on the strategic front. But it did lead to some modest results, which could become more than modest if implemented fully in the months to come. And as always, it is useful for leaders from both sides to engage in frank dialogue and discuss their differences directly. Indeed, the existence of the S&ED and other high-level bilateral platforms such as the JCCT are themselves an accomplishment, without which only limited, if any, progress can be made for the most important and complex bilateral relationship of the century.

Dr. Ira Kasoff is a senior counselor at APCO Worldwide and the former deputy assistant secretary for East Asia at the U.S. Department of Commerce.

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