

The U.S.-China Strategic Economic Dialogue: Round III

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Q1: This is the third installment of the U.S.-China Strategic Economic Dialogue (SED III); how will this forum differ from the previous two?

A1: SED III will take place in the outskirts of Beijing from December 12 to 13 and, as with the first two incarnations, will be chaired by Treasury Secretary Henry Paulson and Vice Premier Madam Wu Yi. SED III is expected to focus on 1) the integrity of trade (i.e., product safety), 2) energy and the environment, 3) financial services, and 4) investment. A particular challenge for SED in general has been balancing the desire to conduct dialogue on medium- and long-term issues while trying to be responsive to political and industry pressure for concrete short-term outcomes. A lesson drawn from SED II, which took place in Washington in May, was the need for SED to focus on a smaller set of core issues and empower other dialogues, like the Joint Commission on Commerce and Trade (JCCT), the traditional mechanism for resolving bilateral trade friction. Accordingly, this year, the JCCT is taking place on December 11, also in Beijing, where it is hoped progress can be made on pressing trade concerns while allowing SED to focus on longer-term strategic issues. With a somewhat slimmed down basket of issues, the U.S. SED delegation will be smaller this time with five cabinet-level officials expected to attend (Treasury Secretary Henry Paulson, U.S. Trade Representative Susan C. Schwab, Secretary of Commerce Carlos M. Gutierrez, Environmental Protection Agency Administrator Stephen L. Johnson, and Health and Human Services Secretary Michael O. LeVitt).

Q2: U.S. officials expect to sign two binding cooperative agreements with China to ensure it produces exports for the U.S. market in accordance with American standards. The agreements will govern the safety and inspections of imported food, feed, medical devices, and drugs. What is the potential impact of such agreements for the United States?

A2: A positive aspect of SED has been its ability to lend weight and momentum to complex issues that cut across agencies. This is as important, if not more so, on the Chinese side, where interagency coordination is traditionally weak and fragmented. Food and product safety is a great example as it involves multiple Chinese agencies and regulators, many of whom have a poor track record of working effectively together. The signing of these binding agreements is a positive step, but their impact will of course depend on the quality of implementation. In China, central government buy-in to improve product safety is one thing, enforcing it at the provincial and local levels, where the problems have tended to originate, is another. Much will depend on the degree to which Chinese regulatory agencies are empowered to act swiftly and with deterrent effect. In this regard, continued and close follow-up by U.S. agencies will be important.

Q3: What are some of the outcomes to be expected from SED III?

A3: I would counsel measured expectations. Having just emerged from the 17th Party Congress in October, significant political uncertainty remains in Beijing. For instance, Vice Premier Wu Yi's successor, and those for a number of important economic ministries and regulators, is still unknown. This uncertainty will have filtered down to the vice minister and director-general level, many of whom will also be shuffled, where most of the negotiating takes place. In this environment, in addition to impeding Chinese interagency coordination, it will be difficult for just-arrived or soon-to-depart officials to make sensitive policy decisions. Additionally, the Chinese are prone to reminding the United States that SED's primary focus was strategic dialogue, not negotiating. They felt that they gave more than they received at SED II, so they will be inclined to keep any offering modest.

We do expect there to be some additional energy and environmental agreements signed that will expand bilateral technical cooperation and perhaps touch on sustainable logging. Both sides are expected to announce the continuation of Bilateral Investment Treaty talks started earlier this year and may broaden the treaty to include investment promotion. An innovation symposium, a commitment from SED II, will take place on December 10 and may also be trumpeted as an outcome. Within the JCCT, a tourism memorandum of understanding (MOU) is expected to be signed, and though not formally linked, the timing of China's recent decision to settle a U.S.-filed World Trade Organization complaint on subsidies was probably not coincidental. Beyond this, Chinese domestic political considerations make it unlikely that a significant breakthrough will be made on issues like financial services market access. On currency, although there is a growing economic policy need for a more flexible *renminbi* (RMB), the Chinese are loathe to giving the perception of having caved to foreign pressure. It is therefore highly unlikely that any major shift in the value of the RMB would be timed in a way that would suggest it was in response to U.S. pressure under the SED.

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