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## Incrementally Stabilizing China-US Relations at the 2011 S&ED BY SHEN DINGLI

As usual the China-US bilateral relationship is constantly shifting; and some could even argue that recently it was deteriorating. However, the third round of the annual China-US Strategic and Economic Dialogue (S&ED) held in Washington, D.C. on May 9-10, along with the subsequent joint statement, highlighted both governments' flexibility and ability to work together. The joint statement from the strategic dialogue covered four dozen topics of mutual agreement and cooperation. China has allowed for the appreciation of its currency, the RMB, since the last round of the S&ED and US exports to China continue to increase. As a result, the RMB exchange rate was not a central issue at this meeting.

**Shen Dingli, Director of the Center for American Studies at Fudan University, explains that "The S&ED is not a 'solve-all' mechanism, but a framework to stabilize a vital strategic relationship between the two countries."**

The United States should welcome the fact that China has agreed to increase access to Chinese markets for US companies. This easing of restraints on American companies doing business in China is due to revised Chinese policies pertaining to mergers and acquisitions, and amid the controversy pertaining to a new Chinese law that encouraged what has been termed as "indigenous innovation." This round of the S&ED seems to also encourage the United States to make certain dual-use technologies available to Chinese acquisition, which is another positive sign. But the United States has been critical of China's policy of approving foreign access to Chinese domestic markets in exchange for one-sided Chinese access to foreign technology. Likewise, China has been frustrated for years by the failure of allowing foreign investment into China in return for Chinese access to foreign technology. In most cases, domestic and foreign bidders do attain equal and fair access across the Chinese market. Nevertheless, some local authorities could be more inclined to choose Chinese domestic bidders over foreign corporations, as the market-for-technology strategy seems not to be working in China's favor.

A market-for-technology strategy is not hard to understand, but to make a law to enforce it does not seem like a good starting point. For foreign companies, it is crucial to both access the Chinese market and to protect their intellectual property rights. However, these two concepts need not conflict with each other. China's membership in the World Trade Organization simultaneously protects and enforces both. It is common sense that owners of advanced technology will not allow another to unilaterally take the property rights and patents that in essence are the foundation of their business. Clearly, foreign businesses are not going to allow Chinese entrepreneurs to kill the geese that lay their golden eggs. China's concession this time would be well paid-off if Beijing could understand that its fundamental source of technological prowess has to be home grown, and not through enforcing a law for a market-for-technology strategy. Genuine Chinese indigenous innovation has to be a home nurtured process, through a long-term cultivation policy of domestic research and development.

Recently, China has complained of an unequal and unfair investment environment in America for Chinese investors. The Chinese company Huawei has encountered several setbacks when it attempted to acquire US businesses. In its response, the United States cited national security concerns. The inter-agency Committee on Foreign Investment in the United States has repeatedly weighed various factors to reach unfavorable



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conclusions pertaining to Chinese companies. Both China and the United States have legitimate security concerns in dealing with business mergers, so they should be considerate in respecting each other in handling sensitive cases. Ideally, each should help the other when assessing the national security impact of bilateral mergers and acquisitions, trying to keep negative outcomes of such reviews to the minimum. For example, if a Chinese bid comes from a business that has some Chinese government control, this should not automatically trigger an outright denial, especially if the Chinese company can publically account for its operations and funding. Both countries need to remove certain unnecessary trade and investment barriers, with a provision for sufficient transparency by both sides to assure that the innocent nature of post-sale or post-merger business is verifiable.

While China and the United States increasingly attach national interests to trade and investment, it is still difficult for them to reconcile their differences pertaining to certain traditional security matters. For instance, at the S&ED they were unable to agree on ending US weapons sales to Taiwan. Likewise, there was disagreement on Chinese and American interpretations of respective rights of each in the South China Sea. They also could not agree to a ban limiting the development and testing of anti-satellite weapons. Therefore, the S&ED always has more to say on the economic side than the strategic.

However, it is noteworthy that both sides did include senior military officers in their delegations. This heralds a new age for top military brass to meet more regularly through the channel of the “Strategic Security Dialogue,” incorporated as part of the S&ED. Chinese General Ma Xiaotian and US Admiral Robert Willard met alongside civilian representatives from both sides. This in itself was unique. Chinese and US military representatives were present when civilian leaders exchanged views on a host of political and strategic issues.

Almost immediately after this dialogue, PLA Chief of Staff General Chen Bingde embarked on a visit to the United States. However, it is clear that these high level military-to-military direct exchanges would be suspended again should the United States insist on future weapons sales to Taiwan, as is expected in 2012. However, it remains to be seen if the military-to-military dialogue could still be retained within the framework of future S&ED talks.

Obviously this round of S&ED occurred at a politically contentious time when the United States seemed to conclude that the protection of human rights within China is at the lowest point since the Tiananmen incident over two decades ago. Human rights issues were a touchy subject that Secretary of State Clinton raised both at the S&ED and in her interview with *The Atlantic* magazine. The United States has been particularly annoyed with recent Chinese handling of some dissidents. The United States believes it a matter of political value or a formality to consistently raise this issue, but a rising China finds it unacceptable for a foreign power to intervene into Chinese domestic affairs. This is a core interest of China, directly related to Chinese leadership and institutional security. Beijing made this position very clear at the outset of the first S&ED two years ago.

Given the unfolding changes during this new decade, it is foreseeable that China and the United States will encounter even more strategic challenges in stabilizing their bilateral relationship and the global order. The S&ED is not a “solve-all” mechanism, but a framework to stabilize a vital strategic relationship between the two countries. With challenges ever shifting, Beijing and Washington need this mechanism to regularly address their core concerns in a timely manner, and to secure reasonable solutions through understanding and collaboration. Previous rounds of the S&ED, including the latest one, have vindicated the utmost importance of their communications. It is through their exchange of complaints and concessions that they are able to advance a complex partnership that is both strategic and competitive.