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The U.S.-China Strategic and Economic Dialogue (S&ED): Economic Outcomes and Issues

From June 22-24, 2015, U.S. and Chinese officials held the seventh round of the U.S.-China Strategic and Economic Dialogue (S&ED), a forum that was established in 2009 by President Obama and then-Chinese President Hu Jintao to address long-term economic and strategic issues. The S&ED is a continuation of the Strategic Economic Dialogue (SED) that was initiated by President George W. Bush and President Hu Jintao in 2006.

During the June 2015 S&ED discussions, a number of major economic issues were discussed and specific outcomes identified. The effectiveness of the S&ED forum in resolving significant short-term bilateral trade disputes and improving cooperation on broader long-term economic issues has been subject to debate among U.S. policymakers.

Background on U.S.-China Economic Forums

The original goal of the SED was to have discussion on major economic issues at the “highest official level.” As noted by former Secretary of the Treasury Henry M. Paulson Jr. in his April 2015 book (*Dealing with China: An Insider Unmasks the New Economic Superpower*): “Our dealings with China had become mired in perhaps a hundred diffuse low-level exchanges and needed to be coordinated and prioritized better.” According to Paulson, the SED was set up to “establish a top-down process that would address long-term concerns while delivering short-term results.” Prior to the creation of the SED, the highest level bilateral economic forum was the U.S.-China Joint Commission on Commerce and Trade (JCCT), which was created in 1983, and is currently co-chaired on the U.S. side by the Secretary of Commerce and the U.S. Trade Representative (USTR). The JCCT remains an important linchpin in the structure of U.S.-China economic dialogues.

Five SED rounds were held between December 2006 and December 2008. The United States sought to persuade China to quicken the pace of its currency reforms, expand market access for financial and nonfinancial services (beyond its World Trade Organization commitments), take steps to boost domestic consumption (including developing a social safety net), improve the business climate in China for U.S. firms (such as through greater transparency of rules and regulations), and to address U.S. high priority trade issues, such as Chinese restrictions on U.S. beef, intellectual property rights protection, and health and safety issues regarding imported Chinese products.

The S&ED Replaces the SED

In April 2009, President Obama and then Chinese President Hu agreed to continue the high-level forum, but expanded and renamed it the S&ED. The new dialogue established two tracks. The first (the “Strategic Track”) is headed by

the Secretary of State on the U.S. side and focuses on political and strategic issues, while the second track (the “Economic Track”) is headed on the U.S. side by the U.S. Treasury Secretary, and focuses largely on economic and trade issues. The first round of the S&ED was held in Washington, D.C., in July 2009, and included 12 U.S. Cabinet officials and agency heads and 15 Chinese ministers, vice ministers, and agency heads.

The Four Main Economic Pillars of the S&ED

The S&ED Economic Track focuses on four broad topics:

- Achieving sustainable and balanced growth through the use of certain macroeconomic and structural policies.
- Promoting more resilient, open, and market-oriented financial systems.
- Deepening bilateral trade and investment ties.
- Strengthening the international financial architecture.

Source: U.S. Department of the Treasury.

The first S&ED (Economic Track) session in 2009 focused on deepening bilateral cooperation in response to the 2008 global economic crisis, continuing commitments by both sides to promote policies to achieve more balanced economic growth, encouraging China to continue economic and financial reforms, expanding China’s participation in international economic forums, and attempting to avoid new forms of protection. Then-Secretary of the Treasury Timothy Geithner stated: “Recognizing that cooperation between China and the United States will remain vital not only to the well-being of our two nations but also the health of the global economy, we agreed to undertake policies to bring about sustainable, balanced global growth once economic recovery is firmly in place.”

Six additional S&ED rounds have been held through June 2015. During the 7th round, held in Washington, D.C., about 400 Chinese officials, including 13 ministers and 40 vice minister-level officials, attended. A fact sheet released by the U.S. Department of the Treasury summarizing the Economic Track meetings noted continued efforts by China to deepen market-oriented exchange rate reforms, rebalance the economy toward greater domestic consumption, and to further liberalize the financial sector (including interest rate reforms and expanded market access for foreign firms). On specific bilateral issues, China pledged that it would improve transparency and expand consultations with the United States on proposed rules on information and communications technology (ICT). Many foreign ICT firms contend that such rules are discriminatory or could require them to turn over sensitive technologies and intellectual property to the Chinese government. On proposed ICT

regulations in the banking sector, China pledged that it would seek and take into account comments from foreign and domestic parties on draft regulations and would ensure that such regulations are nondiscriminatory and do not impose nationality-based conditions or restrictions on foreign firms. The two sides also reaffirmed that reaching a bilateral investment treaty (BIT) remained a high priority and pledged to intensify negotiations and exchange improved “negative list” offers (i.e., exceptions) in early September 2015.

SED/S&ED Progress on a U.S.-China BIT

SED/S&ED Meeting	Results
June 2008 SED	Two sides launch BIT negotiations. These are later put on hold until the United States develops a new model BIT in 2012.
July 2013 S&ED	China committed to negotiate a high-standard BIT with the United States and provide nondiscriminatory treatment on all stages of U.S. investment except for sectors identified on “negative list.”
July 2014 S&ED	Two sides indicate intent to reach agreement on core issues and major articles of BIT text by end of 2014 (although this was not achieved) and to start negotiations on the “negative list” in 2015.
June 2015 S&ED	19 th session of BIT negotiations held (June 8-12); each side submitted first negative list proposals. At June S&ED session, China agreed to submit improved negative list by early September 2015.

Source: U.S. Department of the Treasury Fact Sheets.

Evaluating the S&ED Process

The effectiveness of the SED/S&ED process in enhancing cooperation on long-term economic issues and resolving trade disputes is a topic debated among some U.S. policy makers and observers. U.S. executive branch officials describe the S&ED as not just an annual meeting of top officials from both sides, but a process that involves extensive consultations between U.S. and Chinese counterparts throughout the year. As noted by U.S. Undersecretary of Treasury Nathan Sheets: “It’s not an event, but rather a mechanism. A mechanism for managing and building the relationship between the world’s two largest economies, and it’s powered by day-in and day-out interactions.” Paulson contends that prior to the creation of the SED/S&ED, each U.S. department and agency attempted to independently lobby their Chinese counterparts on various issues, which often achieved little because Chinese ministries often lacked the authority to implement changes themselves. However, the SED/S&ED process now brought together U.S. cabinet officials with high-level Chinese officials, which made it easier to

achieve results. In addition, the SED/S&ED provided incentive for both to work internally across agencies to develop a list of each government’s most important priorities. The importance of the current S&ED process is further highlighted by the fact that the presidents of each country have designated the co-chairs for both the strategic and economic tracks as “special representatives” with authority to coordinate the agencies in their respective governments, thus, theoretically making it easier to come to agreements on policies and issues that are covered by multiple government agencies.

The current S&ED process has also faced criticism. Some analysts contend that the annual S&ED fact sheets on outcomes often repeat what was agreed upon in previous S&ED sessions or in the JCCT, sometimes lack specifics on how China will remove certain trade and investment barriers, and may not always provide assessments of how commitments made by China in previous rounds were implemented. A 2013 report by the Center for Strategic and International Studies (CSIS) argued that ceremony now overwhelms substance in the S&ED, that pressure for short-term deliverables at each event detracts from the dialogue’s objective of fostering long-term strategic cooperation, and that the structure of the S&ED undermines the efforts of individual agencies to work on critical elements of the relationship because the process is routinized and unwieldy.

Others contend that the S&ED sometimes fails to produce enough specific results on important issues, despite the high-level nature of the process. For example, over the past few years, cyber-theft of U.S. trade secrets and government information has become a major source of tension between the two countries. At the start of the June 2015 S&ED talks, U.S. Treasury Secretary Jacob Lew stated: “We have a shared interest and a joint responsibility to pursue policies that support the global economy as well as uphold and continue to improve the global economic and financial architecture. That includes responsibilities to abide by certain standards of behavior within cyberspace. We remain deeply concerned about government-sponsored cyber theft from companies and commercial sectors.” The cyber issue was also raised by President Obama when he met with a high-level Chinese delegation of government officials. Yet, China does not appear to have made any specific commitments on cyber theft issues.

Congress may wish to examine the effectiveness of the S&ED process, such as requiring the Administration to submit more detailed information on the S&ED talks (beyond the information summarized in the fact sheets), provide specific assessments of China’s implementation of past commitments, describe how the S&ED process has advanced U.S. economic interests, and to suggest how the S&ED structure and process can be improved.

Wayne M. Morrison, Specialist in Asian Trade and Finance

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