



# Washington REPORT

News and analysis from Washington, D.C. about key issues in U.S.-Asia Pacific Relations

Volume 2 May 2006

## Bush, Hu Strive To Manage Challenges Confronting U.S.-China Relations

USAPC Interview with Prof. Robert G. Sutter

*U.S.-China relations currently are beset by a broad range of economic, diplomatic, and security challenges. Chinese President Hu Jintao and President Bush proved unable to realize notable progress on these issues during Hu's much-anticipated visit to Washington on April 20.*

*Prof. Robert G. Sutter of Georgetown University does not foresee major breakthroughs in U.S.-China relations in the near term owing to both countries' intense preoccupations, both internal and external. He sees a period of "marking time," which will enable the United States and China to confront these challenges in a constructive manner. As he also maintains in **China's Rise: Implications for U.S. Leadership in Asia** (East-West Center Washington: 2006), notwithstanding China's rise in Asia, the United States will continue to be the dominant power in the region for at least the next decade, if not longer.*

**USAPC: The summit of President Bush and Chinese President Hu Jintao on April 20 in Washington was long on symbolism but short on substantive breakthroughs. What did the meeting accomplish, if anything?**

**Sutter:** The summit helped to keep U.S.-China relations constructive. For the past couple of years, the United States has pressed for Chinese cooperation on such issues as the bilateral economic imbalance, human rights, North Korea, Iran, and Sudan. But both leaders currently have other preoccupations, both internal and external, so U.S. officials really did not anticipate that China would give much ground on any of these issues.

The United States, for its part, has major military commitments in Iraq and Afghanistan as well as being engaged in the broader war on terrorism. Consequently, Washington

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## U.S.-China Trade Talks Fail To Produce Desired Reforms

U.S. officials tried to put a positive spin on the 17th meeting U.S.-China Joint Commission on Commerce and Trade (JCCT) on April 11 in Washington. Commerce Secretary Carlos Gutierrez said the meeting represented a "positive step forward on a number of key issues." But he qualified this praise, saying the two sides "still have much work to do."

For example, the Chinese government agreed to reopen its market to U.S. beef imports—but tied that promise to an as yet finalized inspection protocol. Beijing also said it

would adjust its capital requirements for telecommunications service providers. However, the Chinese would not commit to an implementation plan.

Chinese officials announced a broad action plan to improve enforcement of intellectual property rights (IPR). But it remains to be seen whether China will implement these steps in a way that produces meaningful changes in its IPR situation. A summary of the JCCT outcomes is available at [www.ustr.gov/](http://www.ustr.gov/).

Comments by key U.S. business

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## Official Washington

*In each issue, Washington Report will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to U.S.-Asia Pacific relations. This issue will focus on pertinent personnel from the Office of the U.S. Trade Representative (USTR).*

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cannot really afford to create a big problem with China—provided that China does not create a problem with us.

Both governments want to keep this important bilateral relationship more or less on an even keel, which meant that neither leader pushed too hard on any particular issue at the April summit.

**USAPC: With respect to U.S. “preoccupations,” the Bush Administration’s public approval ratings now are quite low for various reasons. To what extent is the Chinese government taking advantage of this weakness and withholding progress on such issues as United Nations sanctions against Iran or pressure on North Korea to end its nuclear program?**

**Sutter:** China’s unwillingness to be more helpful on Iran, North Korea, and the economic imbalance suggests that Beijing is not above exploiting the Bush Administration’s political weakness to some degree.

But the Chinese leadership also is in a difficult position. Beijing’s contradictory foreign policy approaches complicate its efforts to address economic development and other domestic priorities. If the Chinese government does not appear somewhat willing to cooperate with the United States, it runs the risk of galvanizing anti-China sentiments in Congress and at the U.S. grass roots that could create problems.

Congressional opposition last year to the plans of CNOOC [China National Offshore Oil Corporation] to acquire Unocal is indicative of the periodic spasms of anti-China feeling that Beijing must manage carefully if it wants to ensure continued stable relations with the United States. From the Chinese government’s point of view, the Bush administration basically is holding the line against domestic forces trying to push U.S. policy in a more extreme direction.

Chinese leaders recognize that using confrontational tactics with Washington will not serve their interests. They are willing to take some steps—albeit not fundamental reforms—that help the Bush Administration to manage U.S. domestic tensions.

**USAPC: The so-called Six-Party talks aimed at ending North Korea’s nuclear program have stalled and become a source of friction in U.S.-China relations. Is there another foreign policy challenge the two countries could take on that might serve as a model for diplomatic cooperation?**

**Sutter:** That would depend on the issues we face. The Chinese are not prepared to confront the Western-led international community on Iran. Ultimately, I think Beijing will cooperate in some way or offer an agreement about how to deal with Iran’s nuclear program.

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### **Legislation:**

#### **Grassley, Baucus Introduce Bill To Tackle**

**Currency And Trade Issues**—On March 28, Senate Finance Committee Chairman Charles Grassley (R, Iowa) and Ranking Member Max Baucus (D., Montana) introduced the “U.S. Trade Enhancement Act of 2006.” They developed the bill as a WTO-legal alternative to the Schumer-Graham bill (see below). It would require the Treasury Department to work with the International Monetary Fund to resolve major currency imbalances with the dollar, among other provisions. It also proposes a range of “consequences” for nations that refuse to adopt policies that facilitate the fair valuation of their currency. The bill appears to be gaining support on Capitol Hill following what many regarded as a disappointing summit between President Bush and Chinese President Hu Jintao.

#### **Schumer, Graham Announce Delay Of Vote On**

**Chinese Currency Bill**—After returning from a week-long visit to China, Senators Charles Schumer (D., New York) and Lindsey Graham (R., South Carolina) announced March 28 that they would agree to delay a vote on their Chinese currency bill to no later than

September 29. The controversial measure would impose 27.5 percent tariffs on all Chinese imports in retaliation for Beijing’s unwillingness to allow the *yuan* to appreciate against the dollar. Schumer agreed to give Beijing more time because he believes the Chinese realize that pegging their currency to the dollar “is not only bad for America, but bad for China as well.”

#### **Bill To Reform Foreign Investment Reviews**

**Advances**—On March 30, the Senate Banking Committee unanimously approved a bill that would revamp the process by which an interagency panel—the Committee for Foreign Investment in the United States (CFIUS)—considers the possible national security impact of foreign purchases of U.S. companies. It would require tougher scrutiny of deals in which the acquiring company is owned by a foreign company. This bill will likely be the congressional vehicle for CFIUS reform.

### **Upcoming Hearings:**

#### **U.S.-China Economic and Security Review**

**Commission**—Hearings on “China’s Enforcement of IPR; Movement of Counterfeited and Pirated Goods Into the U.S. and their Dangers,” June 7–8, Washington.

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groups echoed the off-the-record view of some U.S. insiders that this meeting did not produce reforms that will make a much of a difference in the near term. “Even as we recognized measured gains from today’s meetings, we expect future discussions with China to yield significant and consistent progress on systemic challenges that hinder American access to the Chinese market and impede competition,” said Myron Brilliant, Vice President for Asia of the U.S. Chamber of Commerce.

The JCCT was established in 1983 as a forum for high-level dialogue on bilateral trade issues. Washington uses the annual meeting as a forum to identify and resolve trade problems as well as to expand two-way commercial opportunities.

Subsequent actions taken by the U.S. government further suggest that the April 11th meeting disappointed American trade officials, who wanted and expected their Chinese counterparts to bring to the table more ambitious offers with respect to IPR protection, market access, and regulatory transparency.

On April 19, for example, the U.S. government presented to the World Trade Organization (WTO) a review of China’s efforts to adhere to the obligations it assumed upon acceding to the WTO in December 2001. The review was decidedly mixed. It said that China has made progress

in implementing specific commitments required of a WTO member. By the same token, Beijing “has not fully embraced key WTO principles of nondiscrimination and national treatment nor instituted market mechanisms and made its trade regime more predictable and transparent.”

Shortly thereafter, the U.S. Trade Representative’s Office (USTR) released its statutorily mandated “Special 301” report. This report requires USTR to identify countries that deny adequate and effective protection for IPR. The April 28 report singled out China for “priority watch.” This means that China’s IPR regime may be subject to investigation under Section 301 of the Trade Act of 1974, which could result in the imposition of punitive trade sanctions on Chinese imports.

Finally, at press time the Treasury Department was poised to issue its twice-annual report that analyzes international exchange rate policies. In previous years, Treasury did not cite China as a currency manipulator—an omission that fanned protectionist fires in Congress. Although in July 2005 China abandoned its eight-year policy of pegging the *yuan* to the dollar, experts say the new regime still lacks sufficient flexibility. Thus, in the wake of the less-than impressive JCCT meeting, Treasury officials are under intense political pressure to cite China as a currency manipulator and call for negotiations. ♦

## Public Diplomacy

### **'Murrow' Journalists Learn About Government-Media Relations From The Grass Roots Up**

Journalists from more than 100 countries around the world convened in Washington April 1 for the inaugural Edward R. Murrow Program. The so-called Murrow journalists examined U.S. journalism practices through visits to government institutions and think tanks in Washington, several state capitals, and the campuses of seven leading journalism schools. The State Department's Bureau of Educational and Cultural Affairs selected 129 up-and-coming leaders in foreign television, radio, and print media to participate in the April 1-21 exchange initiative.

The group's orientation meetings in Washington April 1-5 focused on the importance of democratic principles in journalism and global leadership. The Murrow journalists dispersed April 5-13 to host campuses for academic seminars with faculty and American students. The University of Southern California's Annenberg School for Communication hosted the Asian Murrow journalists. They then spent four days observing U.S. press coverage of grass-roots politics. The Murrow program concluded in Washington with symposium on government-media relations, featuring former White House Press Secretary Scott McClellan and top U.S. broadcast journalists.

### **Hughes Says Increased Exchanges Are A Key Element Of 'Transformational Public Diplomacy'**

On May 3, Karen Hughes, Under Secretary of State for Public Diplomacy and Public Affairs, outlined her vision of "transformational public diplomacy" to a House Appropriations subcommittee. She said that implementing the new approach is "fundamentally changing the way we do business" in various areas. Chief among these are international exchange programs. President Bush's FY07 budget request includes an additional \$48 million to enable more exchanges "because we know they work," she said. "People who come [to America] make up their own minds about us and almost always go home with the . . . more positive view of our country."

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I am very pessimistic, however, about the extent to which China will use its energy-related and other leverage with North Korea to move the Six-Party talks forward. This is not an issue on which there will be a big breakthrough.

Frankly speaking, I think we should get used to the

fact that we will not have big breakthroughs with China in the near term. We are marking time. Beijing recognizes that the Bush administration is not in a strong position. Chinese leaders therefore are reluctant to offer commitments or make a deal with Washington for fear that such agreements would not serve China's longer term interests—particularly if the party in power changes in 2008.

We could use negative terms and describe this as a period in U.S.-China relations of "stagnation" or "marking time." Alternatively, we could use positive language and say this period is a time to "consolidate our relationship." At the bottom line, though, things are not bad. Both sides are trying to manage the challenges confronting the bilateral relationship in a constructive manner.

And these challenges will intensify. The bilateral trade deficit will continue to increase and U.S. business will continue to complain about China's inadequate enforcement of intellectual property rights (IPR) and market access restrictions. The contradictions in China's foreign policy also undoubtedly will increase.

For example, on the one hand, China will endeavor to rise peacefully, but on the other hand, it will also continue

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***"... [T]he two countries have become so economically interdependent ... that it will be hard for protectionist legislation to gain traction."***

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to expand its military capabilities. On the one hand, Beijing will try to comply with international laws and norms, but on the other hand, it will support rogue regimes, such as the current government of Sudan.

The United States will have to find a way to manage these challenges. Congress may want to pursue a harder line, but the two countries have become so economically interdependent and American business makes so much money through trade and investment with China that it will be hard for protectionist legislation to gain traction.

We will hear a lot of complaints from Capitol Hill, particularly in the run-up to the mid-term congressional elections. But such "noise" and related legislation will not alter policy in a meaningful way. I cannot see anything as extreme as the bill introduced by Senators Charles Schumer (D., New York) and Lindsey Graham (R., South Carolina) passing Congress. [The Schumer-Graham bill would impose 27.5 percent tariffs on all Chinese imports in retaliation for Beijing's unwillingness to allow the yuan to appreciate against the dollar.]

**USAPC: Some regional analysts contend that China seized the opportunity presented by the post-9/11 shift**

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**of U.S. diplomatic and strategic priorities to expand its economic and political influence in Asia. Do you think the United States is losing out to China in Asia?**

**Sutter:** The record shows that the Chinese long have been trying to outmaneuver the United States so that eventually there will be an Asian order in which the United States plays a less prominent role. However, Beijing is not prepared to do very much right now to affect that outcome. The Chinese government's actions right now are aimed at maintaining stability, pursuing economic development, reassuring neighbors that China's intentions are peaceful, and creating an atmosphere that excludes Taiwan as an independent nation.

If you look at the balance of influence in the region, yes, China definitely has enhanced its position. With the exception of Japan, and of course, Taiwan, the policy elites and citizenry of most Asian countries have welcomed China's cooperative approach.

However, Asian government officials that I frequently interview take a more calculated, pragmatic view of China's "charm offensive." They understand that it is in their countries' interests to cooperate with China where

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***"The United States remains important to Asian nations as a ... security guarantor ... It is willing to do the job ... and does not want their territory. "***

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possible, encourage positive Chinese behavior, and pursue economic opportunities with China, recognizing that such ties also have a downside.

In that context, the United States remains important to Asian nations. It remains important (1) as a security guarantor and (2) as a trading and investment partner. On the security side, the United States is still willing to do the job. It does not want their territory. Asian leaders want this kind of guarantee because there still is a great deal of uncertainty and some acrimony between and among the regional governments.

Moreover, Asian nations are uncertain about what to do in the post-Cold War environment, so most of them hedge. They certainly want to develop better relations with a rising China, but they do not want to be under China's sway. The United States looms very important in this hedging strategy.

On the economic side, although China has emerged as a center of intra-Asian trade, regional governments also have come to understand that so much of intra-Asian trade depends on good trade and economic relations with the United States. They recognize that not only has the

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**USAPC In Action**

**Congressional Study Group on Asia Pacific Economy:**

**"The Asia Pacific Partnership On Clean Development And Climate (APP) Initiative"**—On March 27, USAPC held a program on Capitol Hill that featured a discussion about the "Asia Pacific Partnership on Clean Development and Climate (APP). The "results-oriented" initiative was launched in January by Australia, China, India, Japan, South Korea, and the United States. The APP focuses on voluntary, practical measures taken by these Asia Pacific countries to create new investment opportunities, build local capacity, and remove barriers to the introduction of clean, more efficient energy technologies. Notably, it has structured task forces to enable strong private sector "realism to enter the process."

Speakers included (1) Mr. Stephen D. Eule, Director, Office of Climate Change Policy, U.S. Department of State, (2) Mr. Trigg Talley, Acting Director, Office of Global Change, U.S. Department of States, and (3) Dr. Harlan Watson, Senior Climate Negotiator and Special Representative, U.S. Department of State. Watson said that the APP is the "best alternative out there" to engage China and India in both policy and technical discussions about development of clean energy technologies.

**"Setting Realistic Goals For U.S. Free Trade Agreements In The Asia Pacific"**—Prof. Michael Plummer of the School of Advanced International Studies (SAIS), Bologna and Ms. Arrow Augerot, Deputy Assistant U.S. Trade Representative for Korea will speak at this program on May 12. Prof. Plummer, who is also a nonresident fellow of the East-West Center, will discuss his recently completed study about proposed U.S. free trade agreements (FTAs) with Southeast Asian countries, focusing on Indonesia, Malaysia, and the Philippines. Ms. Augerot, who recently moved from the Commerce Department to USTR, will update attendees on negotiations regarding a Korea-U.S. (KORUS) FTA.

*The East-West Center's Congressional Study Groups (CSG) provide fora for the dissemination of research and discussions of key issues in U.S.-Asia relations of potential interest to U.S. lawmakers. The CSG on the Asia Pacific Economy addresses current issues arising from the ever-deepening U.S. economic relationship with nations of the Pacific Rim. The program is exclusively for congressional staff.*

### **Important ‘Track-Two’ Meetings:**

**PECC Standing Committee Meeting, April 7-10, Hanoi, Vietnam**—The meeting of the Pacific Economic Cooperation Council (PECC) featured a seminar, “Vietnam: Engaging in the Global Economy.” Discussants explored Vietnam’s aspirations to accede to the World Trade Organization (WTO) and participate in initiatives aimed at integrating the ASEAN economies.

Participants also discussed PECC’s two signature projects, the annual *State of the Region* report (SOTR) and the “Regional Institutional Architecture” project. Concerning the former, they confirmed that the 2006 SOTR will feature (1) a wide-ranging review of regional developments, (2) analysis about the regional implications of China’s rising influence and the potential impact of increasing oil prices, and (3) a regional economic forecast, which heretofore PECC published as the *Pacific Economic Outlook*.

**CSCAP Steering Committee Meeting and Asia-Pacific Roundtable, May 29- June 1, Kuala Lumpur, Malaysia**—The 25th Steering Committee meeting of the Council for Security Cooperation in the Asia Pacific (CSCAP) will be held on May 29. The 20th annual Asia-Pacific Roundtable, organized by the Institute of Strategic and International Studies Malaysia, will follow. Topics to be discussed include (1) “New Balance of

Power in the Asia Pacific,” (2) “Economic Outlook for the Asia Pacific and its Impact on Regional Security, and (3) “Reconciling the ASEAN Plus Three Summit and the East Asia Summit,” among others.

### **Key Official Meetings, May-June 2006**

● **U.S. Secretary of State Condoleezza Rice, U.S. Defense Secretary Donald Rumsfeld, Japanese Foreign Minister Taro Aso, and Japanese Minister of State for Defense Fukushima Nukaga** held the “two-plus-two” dialogue, May 1, Washington.

● **Tim Adams, Under Secretary of the Treasury for International Affairs**, attended the annual meeting of the Asian Development Bank, May 4–5, Hyderabad, India.

● **Christopher Hill, Assistant Secretary of State for East Asian and Pacific Affairs**, will attend the U.S.-ASEAN Dialogue, May 23, Bangkok, Thailand.

● **Kim Jong-hun, Korea’s lead trade negotiator, and Wendy Cutler, Assistant U.S. Trade Representative**, will hold the first official round of Korea-U.S. Free Trade Agreement (KORUS-FTA) negotiations, June 5–9, Washington.

● Proposed state visit by **Japanese Prime Minister Junichiro Koizumi**, June 28–29, Washington.

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United States been willing to absorb a \$600-700 billion trade deficit with world exporters, notably in Asia, but this imbalance also is essential for their economic well being.

China is rising in a regional setting in which the United States still dominates. Security and economics are the foundation of U.S. leadership in Asia, and the United States will continue to be the dominant power there for at least the next 10 years, if not longer.

**USAPC: The Chinese do not appear uncomfortable with the protracted nature of the Six-Party talks and the fact that the stalemate basically enables North Korea to continue developing its nuclear capabilities.**

**Do you think the Chinese are willing to tolerate a nuclear North Korea in the short term as a means of building goodwill that, hopefully, will lead to the dismantlement of the program in longer term?**

**Sutter:** Yes, I do. I think that has always been their view. China has priorities when it comes to North Korea, and stability seems to be more important than de-

nuclearization. The Chinese agreed to participate in the Six-Party process primarily because they were concerned about a U.S.-led war. They saw the talks as a way to manage a nuclear North Korea in a way that maintains stability on the peninsula.

In truth, we have been living with a nuclear North Korea for several years, and I think we will have to get used to it. If North Korea proliferates, however, that would be disastrous. The United States would feel compelled to take strong actions against Pyongyang, which would threaten to destabilize Northeast Asia and cause a real crisis in U.S.-China relations.

But short of evidence of North Korean proliferation, I think China is prepared to live with the current uneasy balance. Beijings’ actions suggest that stability remains the top priority and it is willing to live with the consequences of that policy. ♦

*Robert G. Sutter is a Visiting Professor of Asian Studies at the School of Foreign Service, Georgetown University. An expanded version of this interview is available at [www.usapc.org/Resource-Blog/sutter.pdf](http://www.usapc.org/Resource-Blog/sutter.pdf)*

# Thomas Says U.S.–Korea FTA Could Serve As A Model For Japan Accord

House Ways and Means Committee Chairman Bill Thomas (R., California) said April 3 that recently launched negotiations to conclude a Korea-U.S. Free Trade Agreement (KORUS) could serve as a model for FTAs with other modern developed countries in Asia and elsewhere. “A Korea FTA would serve as an example to Japan, in particular, that ‘this is what you can do to restructure your economy.’ It would also disprove critics who charge that the United States can only do FTAs with ‘developing countries,’ like Oman,” Thomas said. The influential lawmaker delivered the keynote address at a program entitled, “The Future of U.S. Trade Policy” sponsored by the Washington, D.C.-based American Enterprise Institute.

Thomas said that “emotion rather than analysis” is driving the trade debate on Capitol Hill this year, citing the brouhaha that ultimately forced Dubai Ports World to give up its management stake in six U.S. ports in order to complete its acquisition of British shipping company P&O. He also was pessimistic that Congress would renew presidential Trade Promotion Authority (TPA), which expires in mid-2007.

TPA is essential for U.S. trade negotiations. It enables the president to seek an “up-or-down” vote from Congress on trade agreements without allowing amendments

that could unravel what are often delicately crafted accords.

Nevertheless, the Bush Administration must find a way to salvage its free trade agenda in 2006, Thomas urged. The best way to do that, he proposed, is to declare the WTO talks a failure and focus instead on concluding as many bilateral FTAs as possible by the end of the year. The United States and the European Union have “irreconcilable differences” on trade that will impede the successful conclusion of the WTO round, according to Thomas. Washington should “stop being an enabler.” and “announce its separation” from Brussels on trade, he said.

In the same get-tough vein, Thomas urged the White House to press for expeditious conclusion of a U.S.–Thailand FTA. The talks, launched in June 2004, stalled last year owing to disagreements about trade in agriculture, pharmaceuticals, and other issues. The White House should give the Thai government a deadline and if Bangkok misses it, redirect U.S. energies to concluding potentially more fruitful FTAs with Korea and Malaysia, Thomas said.

The United States and South Korea formally will launch FTA negotiations June 5-9 in Washington. The Office of the U.S. Trade Representative (USTR) has promoted the accord as a “win-win proposition” for both countries. Two-way trade could increase from the current \$73 billion to as much as \$93 billion, USTR says. The agency also has high hopes for a U.S.–Malaysia FTA, which it views as key to advancing the broader Enterprise for ASEAN Initiative. Officials cite private-sector studies that predict the FTA could double two-way trade—now \$44 billion—in only five years. ♦

## Status of U.S.-Asia Pacific Free Trade Efforts

<u>Country</u>	<u>FTA</u>	<u>TIFA</u>	<u>WTO</u>	<u>GSP</u>
Australia	×	×	×	Not Eligible
Brunei		×	×	Not Eligible
Burma			×	Not Eligible
Cambodia			×	×
Indonesia		×	×	×
Korea	To be launched 6/5/06	×	×	Not Eligible
Laos		Negotiating Accession	Not Eligible	
Malaysia	Launched 3/8/06	×	×	Not Eligible
Philippines		×	×	×
Singapore	×	×	×	Not Eligible
Thailand	Negotiating	×	×	×
Vietnam			Negotiating Accession	Not Eligible
ASEAN-10*		Negotiating		

\*Formally known as Enterprise for ASEAN Initiative

**FTA**—Free Trade Agreement

**TIFA**—Trade and Investment Framework Agreement

**WTO**—World Trade Organization

**GSP**—Generalized System of Preferences

Source: Office of the U.S. Trade Representative



# United States Asia Pacific Council



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