

POLICY ANALYSIS

Managing the U.S.-China Foreign Economic Dialogue: Building Greater Coordination and New Habits of Consultation

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KEYWORDS: U.S.-CHINA RELATIONS; STRATEGIC ECONOMIC DIALOGUE; U.S. DOMESTIC POLITICS; TRADE; FOREIGN ECONOMIC POLICY

EXECUTIVE SUMMARY

This essay attempts both to explain the sources and consequences of parochialism in U.S. foreign economic policymaking and to identify new bilateral dialogues with China that are creating deeper habits of consultation that may promote greater stability in the U.S.-China relationship.

MAIN ARGUMENT

U.S. foreign economic policymaking in general—and toward China specifically—has been haphazard and uncoordinated, often reflecting competing policy efforts within the executive branch and between the president and Congress. Because various components of the U.S. bilateral dialogue with China are led by different bureaucracies, the parochial interests of these groups can create a policy shaped by narrow interests rather than one reflecting the overall needs of the economic relationship. New dialogues at the senior level, however—such as the Treasury Department’s Strategic Economic Dialogue and the State Department’s Senior Dialogue—offer a broader strategic focus under which to coordinate mid- and lower-level dialogues. This, in turn, may both provide a useful structure to coordinate U.S. policy interests and help shape China’s development, encouraging China to become a responsible stakeholder in regional and global affairs.

POLICY IMPLICATIONS

- If U.S. bureaucracies operate independently in various bilateral dialogues, without overall policy coordination, bureaucratic infighting rather than strategic imperatives will shape U.S. foreign policy priorities. In such an environment presidential prerogative in the making of foreign economic policy becomes more vulnerable to congressional and domestic critics.
- If regularized high- and low-level dialogues that focus on strategic issues rather than on specific deliverables are maintained, then these new habits of consultation can promote greater cooperation with China by providing a way to bring China to the table on sensitive subjects. Furthermore, placing current controversial dialogues within a broader framework brings policy framers and implementers from both sides to the table.
- If the State Department’s emerging role as coordinator and framer of foreign economic policy is maintained, then the U.S. government can make use of its ready expertise and broad orientation, which provides a strategic focus that links U.S. economic interests to other cross-cutting issues, as well as coordinate with the U.S. Embassy and consulates to facilitate implementation of U.S. policy goals within mainland China.

In the absence of a shared Soviet threat to cement the Sino-U.S. strategic relationship, the integration of China into the global economic system has become an important post-Cold War priority and the new basis for engagement with China. Epitomizing this position is the promotion of free trade with China by former presidents George H.W. Bush (in the face of sanctions pressures from Congress) and Bill Clinton (after de-linking trade from human rights). Similarly, President George W. Bush has supported not only free trade generally but also related policies such as China's entry into the World Trade Organization (WTO). Although integrating China into the global system has become an important national priority, this position has generated much controversy across all three administrations.

The making of policy toward China remains a fractious process both because of competing institutional views and because the "intermestic" nature of economic issues pits the policy authority of the executive branch against the authority of Congress.¹ Sharing policy responsibility, these two institutions often work at cross purposes on foreign economic policies that straddle the domestic and international divide. For example, the current Bush administration's engagement of China has survived despite domestic criticism on a host of issues such as China's unfair trade practices, continued intellectual property rights (IPR) violations, and currency manipulation.² This situation illustrates that policymakers are challenged by the two-level game nature of the China problem in which executive branch policymakers must build broad policy coalitions in order to balance strategic foreign policy imperatives with domestic limitations.³

Missing from this two-level game discussion is the additional post-Cold War reality that as the variety of new issues and problems with China expands so does the relevance of multiple policy actors within the executive branch. The plethora of actors representing both different policy calculations and different means to pursue the bilateral relationship diffuse

¹ Intermestic issues refer to international issues such as trade and the environment that force the president to coordinate with members of Congress and other domestic interests. See, for example, Bayless Manning, "The Congress, the Executive, and Intermestic Affairs: Three Proposals," *Foreign Affairs* 55 (1977): 306-22.

² See, for example, Michael A. Needham and Tim Kane, "Political Protectionism Threatens U.S.-China Dialogue: An Election-Season Legislative Mistake," *National Review Online*, September 28, 2006 ~ <http://www.heritage.org/Press/Commentary/ed092806a.cfm>.

³ In the discipline of international relations most are familiar with Robert Putnam's characterization of the two-level game where decisionmakers must balance domestic considerations with international imperatives when making policy choices. See Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-level Games," in *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, ed. Peter B. Evans, Harold K. Jacobson, and Robert D. Putnam (Berkeley, CA: University of California Press, 1992), 431-68.

foreign policymaking authority to include important players across multiple bureaucracies. For example, the players involved may range from the Defense and State Departments on the strategic side to the Treasury Department, Commerce Department, and U.S. Trade Representative (USTR) within the Executive Office of the President, among others, on the economic side. These circumstances—and China’s increasing importance—have empowered a new set of bureaucratic players in the U.S. government that increasingly have a voice in the overall bilateral agenda. As this essay will show, this situation leads to bureaucratic infighting in some circumstances and to greater coordination of the bilateral economic agenda in others.

This essay attempts to explain the sources and consequences of parochialism in U.S. foreign economic policymaking, arguing that the fractious parochial fights over the broader U.S.-China bilateral dialogue also affect the equation of economic policymaking. Completing this analysis, this essay compares the policymaking process of the George W. Bush administration (hereafter the Bush administration) to those of the previous two administrations. First, like preceding administrations, the Bush administration has learned that greater coordination is a key factor in promoting greater policy coherence. While Clinton created the National Economic Council (NEC), the Bush administration has made efforts both to develop high-level strategic dialogues with broad executive-branch participation and to expand discussions at the working level in order to coordinate the broad range of the issues that compromise the bilateral economic relationship. Second, many of Bush’s new and elevated dialogues have had a medium- or long-term focus around areas of common interest, rather than simply a short-term focus on specific deliverables (a focus that creates a wide-ranging habit of consultation). Third, having emerged to serve a coordinating role, the State Department is now a hidden but essential partner for the success of U.S. bilateral efforts.

This essay draws in part on data from the author’s personal experience working on foreign economic policy issues in the State Department’s Office of Chinese and Mongolian Affairs in 2004. The essay also draws on further information the author gathered through subsequent background interviews with U.S. government personnel and experts knowledgeable about U.S.-China economic relations. These interviews were conducted on an ongoing basis from April 2005 through December 2006. Data from various U.S. government publications and documents available through the National Security Archives’ project “China and the United States: From Hostility to Engagement, 1960–

1998” and at the George H.W. Bush Presidential Library, as well as scholarly analyses and Western and Chinese media sources, supplement this work.⁴

This essay is divided into three sections:

- ∞ pp. 169–175 overviews the origins of the “responsible stakeholder” policy within the Bush administration and compares it with the policy approaches of the previous two presidents
- ∞ pp. 175–183 explores various recent and ongoing U.S.-China bilateral dialogues that arguably represent central U.S. efforts to integrate China into the global economic system
- ∞ pp. 183–185 presents conclusions on the advantages and disadvantages of the current bilateral economic dialogues as well as the resulting policy implications

RECENT CALCULATIONS OF CHINA AS A RESPONSIBLE STAKEHOLDER

Robert Zoellick speaking as deputy secretary of state before the National Committee on U.S.-China Relations in September 2005 articulated a pragmatic engagement policy for the administration that cemented the basis for cooperative U.S.-China relations. Noting China’s embrace of globalization and market reform, Zoellick argued that neither the Cold War analogy nor the nineteenth century European balance-of-power model of politics—popular with Defense Secretary Donald Rumsfeld, Deputy Secretary Paul Wolfowitz, and Vice President Dick Cheney early in the first Bush administration—applied to China now. Zoellick called on China to become a “responsible stakeholder” in the international system:

[the United States] welcomes a confident, peaceful, and prosperous China, one that appreciates that its growth and development depends on constructive connections with the rest of the world. Indeed, we hope to intensify work with a China that not only adjusts to the international rules developed over the last century, but also joins us and others to address the challenges of the new century.⁵

⁴ In order to protect sources, the author has agreed to maintain their anonymity and thus refers to them generally in the text.

⁵ Robert Zoellick, “Whither China: From Membership to Responsibility,” remarks to the National Committee on U.S.-China Relations, November 25, 2005, U.S. Department of State ∞ <http://www.state.gov>. See also Michael Rice, “Bridging the Gap,” *Beijing Review* 49, no. 3 (January 19, 2006): 12–13. See U.S. Department of State, “Office of the Spokesman, Media Note, December 8, 2005, “Robert B. Zoellick, Statement on Conclusion of the Second U.S.-China Senior Dialogue ∞ <http://seoul.usembassy.gov/china20051208.html>.

This articulation of U.S.-China policy represented the effort of the State Department to control the framing of the bilateral relationship in light of the Defense Department's attempt to set a more hostile articulation of policy through such reports as the Quadrennial Defense Review.

While expressing the hope that China would become a responsible stakeholder, in this speech Zoellick also acknowledged that China was not yet the global stakeholder he envisioned. As such, the speech struck a fragile balance between the pragmatic engagement position of the State Department and the security threat perspective represented by the Defense Department and left the inherent contradictions of its hedging strategy unaddressed.⁶ In August 2006 Thomas J. Christensen, deputy assistant secretary of state for East Asian and Pacific Affairs, acknowledged the dual strategy of this term, stating that the United States needed to pursue "active engagement to maximize areas of common interest and cooperation, along with a recognition that we need to maintain strong U.S. regional capabilities in case China does not eventually move down a path consistent with our interests."⁷

Underlying both Bush's responsible stakeholder language (despite the hedging) and the engagement rhetoric (as shown later in this essay) of the previous two administrations is the assumption that the best way to influence China's future reform is by convincing it to become part of the international community. This neo-liberal policy approach represents the long-held Washington consensus on development, which argues that as commercial engagement (i.e., the promotion of free trade) supports change and reform in countries such as China it also increases those countries' stake in the global community more broadly.⁸ In this sense Bush's policy toward China is quite similar to the consensus developed by his predecessors.

⁶ See Jean A. Garrison, *Making China Policy: From Nixon to G.W. Bush* (Boulder: Lynne Rienner Publishers, 2005), ch. 7 for a discussion of how policy toward China has evolved under George W. Bush. To this day, two policy streams exist: one representing the pragmatic responsible stakeholder and the other identifies with the threats articulated in the Pentagon's annual reports and the Quadrennial Defense Review.

⁷ Thomas J. Christensen, "China's Role in the World: Is China a Responsible Stakeholder?" statement before the U.S.-China Economic and Security Review Commission, August 3, 2006 ~ http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_08_3_4wrts/06_08_3_4_christensen_thomas_statement.pdf.

⁸ For a discussion of U.S.-China commercial relations see Julia Chang Bloch, "Commercial Diplomacy," in *Living with China: U.S.-China Relations in the Twenty-first Century*, ed. Ezra F. Vogel (New York: WW Norton, 1997), 185-216. The concept of the "Washington consensus," coined by John Williamson, has come to refer to a range of policies associated with neo-liberalism and expanding the role of market forces while constraining the role of the state in the economy. For a more specific treatment of the origins of this concept see the discussion at the Center for International Development at Harvard University: Global Trade Negotiations Home Page ~ <http://www.cid.harvard.edu/cidtrade/issues/washington.html>.

George H.W. Bush: Maintaining Engagement against Sanctions Pressures

Rhetorically, George H.W. Bush's policy also rested on the belief that the interdependence that results from deepening commercial ties not only promotes political reform but also can encourage responsible behavior in other policy areas. In talking points for the press in May 1989, the administration indicated that it was working with Chinese leaders both to expand trade opportunities and to emphasize the benefits of economic liberalization. When facing congressional criticisms on issues such as IPR, market access, and China's membership in the General Agreement on Trade and Tariffs (GATT), administration officials emphasized the progress that China had made over the past several years, adding that regular contact with China would guarantee additional progress.⁹ Despite Beijing's crackdown on student protests in Tiananmen Square in June 1989 and the resulting push by Congress for sanctions, Bush remained a staunch supporter of maintaining China's most favored nation (MFN) status and advocated continuing the bilateral relationship as usual. Bush consistently avoided the harshest sanctions in the face of bipartisan congressional pressure for sanctions.

The administration succeeded in its efforts because it maintained a single policy voice in arguing that U.S. promotion of foreign trade and investment was the best way to ensure China's return to a responsible role in world politics.¹⁰ Bush avoided the bureaucratic politics that plagued other administrations because he remained directly involved in the policymaking process and clearly articulated his policy goals. The administration presented a united front to Congress, even when Congress accused Bush of being soft on Communists and the "butchers of Beijing."¹¹

⁹ EAP Press Guidance, "Intellectual Property Rights," May 10, 1989 (#01035); EAP Press Guidance, "Market Access in China" May 10, 1989 (#01036); and EAP Press Guidance, "PRC GATT Accession," May 10, 1989 (#01037), available in the National Security Archives Collection, "China and the United States: From Hostility to Engagement, 1960–199," Washington, D.C. Other press guidance at the time emphasized the positive impact of increased economic ties between Taiwan and China.

¹⁰ "Talking Points on China" and "Chronology of White House Comments on the Situation in China," White House Press Office Marlin Fitzwater Files, Box 4 (folder: China [OA/ID 06786]), Bush Presidential Library, June 1989; and "Department of State East Asian Bureau Press Guidance," White House Press Office Marlin Fitzwater Files, Box 4 (folder: China [OA/ID 06786]), George H.W. Bush Presidential Library, 1; and George Bush and Brent Scowcroft, *A World Transformed* (New York: Alfred A. Knopf, 1998), 98–102.

¹¹ Garrison, *Making China Policy*, 115.

Bill Clinton: Building a Comprehensive Engagement Strategy

Bill Clinton's pro-engagement policy developed after a sixteen-month struggle between different bureaucratic actors over how best to promote free trade and reform in China. Adopting the position of congressional Democrats early on, Clinton linked progress in the bilateral trade relationship to China's progress on human rights. Disagreements over how to attain these goals, however, led the State Department to seek human rights concessions as economic policymakers in the Treasury Department, the Commerce Department, and the NEC pursued a separate agenda by discussing China's entry into the world trade system. Through 1993 and the first quarter of 1994, the State Department argued that progress in human rights was a prerequisite for progress in trade issues, while Treasury Secretary Lloyd Bentsen and National Economic Advisor Robert Rubin pushed Congress to maintain China's MFN status in order to preserve the overall trade relationship.¹²

When China failed to respond to sanction threats, however, Clinton's failed policy forced a reassessment. Clinton ultimately changed his focus as his trade goals trumped his concern over human rights. This early bureaucratic competition flourished, in part, because of the president's unwillingness to decide on a single course of action and because of his lack of sustained focus and involvement in China policymaking. Newly empowered economic advisors came into direct conflict with the traditional stakeholders within the National Security Council (NSC), creating a pattern of bureaucratic infighting that persisted throughout much of Clinton's time in office.

In contrast by 1999 Clinton became fully committed to and directly involved in promoting permanent normal trade relations (PNTR) with China. His rhetorical push for PNTR presented a "big picture" economic equation that linked economic security to U.S. national security. When the administration submitted its PNTR legislation in March 2000, Clinton argued that China's entry into the WTO was "the most significant opportunity that we have had to create positive change in China since the 1970s." The United States could either use the WTO to influence China's future choices in the "right" direction or "turn our backs and almost certainly push it in the wrong

¹² See Garrison, *Making China Policy*, 136–40. Ironically, when President Clinton created the NEC to increase White House coordination of international economic policy, in practice he signaled the elevated importance he placed on economic policy. This move gave his National Economic Advisor Robert Rubin and Treasury Secretary Lloyd Bentsen unprecedented influence in the making of policy toward China and provided a basis for competition with traditional stakeholders.

direction.”¹³ Clinton’s trade representative, Charlene Barshefsky, argued that PNTR represented “a huge strategic component that is to say ‘do you want China outside the international community or inside and constrained by international rules?’”¹⁴ On the strategic economic front, Joan Spero, the undersecretary of state for economic, business, and agricultural affairs, noted that “one of our strategic goals is to have a strong bilateral relationship with a strong and prosperous China and to support China’s participation as a responsible member of the international economic system and international economic institutions.”¹⁵ National Security Advisor Sandy Berger argued that U.S. interests lay with a China that was “stable, open and non-aggressive; that embraces political pluralism and international rules of conduct; that works with us to build a secure international order.”¹⁶

Clinton garnered congressional support with a strong lobbying campaign emphasizing these themes as well as the chances for reform and development of the rule of law in China. The White House took pragmatic measures by increasing meetings with congressional leaders from both parties and adding oversight provisions and human rights reporting requirements to PNTR legislation to placate its harshest critics.¹⁷ In these efforts, central coordination of the policy by the White House led to a successful outcome.

George W. Bush and the Domestic Context

Domestic political challenges have also plagued George W. Bush’s positive engagement efforts. Arguably, while the U.S. business community was more united in its efforts to promote closer trade ties leading up to PNTR, today more groups are vocally critical of Chinese practices. Some small U.S. companies fear Chinese competition and piracy, while larger businesses are concerned about China’s overall mercantilist practices. Specific concerns over issues such as the increasing trade deficit, which reached a record \$232.5 billion in 2006, flourish because of the resulting domestic job losses

¹³ William J. Clinton, “Remarks by President Bill Clinton on China,” remarks at the Paul Nitze School of Advanced International Studies, March 8, 2000 ~ <http://www.usembassy-china.org.cn/press/release/2000/clinton38.html>.

¹⁴ Author’s telephone interview with Charlene Barshefsky, September 18, 2002.

¹⁵ Memo from Undersecretary Spero to the Secretary of State, October 17, 1996, Post-Publication File, available in the National Security Archives Collection, “China and the United States: From Hostility to Engagement, 1960–1998,” Washington, D.C.

¹⁶ Samuel R. Berger, “Building a New Consensus on China,” remarks before the Council on Foreign Relations, New York, June 6, 1997.

¹⁷ Garrison, *Making China Policy*, 151–54.

in manufacturing and agriculture.¹⁸ In other areas influential interest groups have flourished since Tiananmen Square on a range of issues such as human rights, religious freedom, and organized labor. These groups have used their prominent voices in Congress to persistently pressure the administration to elevate their particular issues of concern to a prominent place in the bilateral dialogue.¹⁹

In light of this context, Bush has struggled to respond in a clear and coordinated way. While former secretary of state Colin Powell opined that the bilateral relationship is the best it has been in thirty years, China's behavior—be it Beijing's economic policies or military modernization campaign—still challenges U.S. interests in East Asia. Bush's need to address domestic concerns directly is clear by the tenor of the testimony provided to Congress by administration officials. For example, in December 2006, U.S. Trade Representative Susan Schwab noted China's "significant" but "decidedly mixed" progress in bringing its trading system into basic compliance with WTO standards. The USTR office remarked that China still pursued trade-distorting measures such as discriminatory regulations, local content requirements, and export restrictions, citing Chinese government intervention and industrial policies as a significant barrier to doing business in China. In addition, despite commitments to strengthen protection and enforcement of IPR, Schwab noted that the Chinese government still resisted calls for better use of its criminal remedies against IPR violations.²⁰ Similarly, the U.S.-China Economic and Security Review Commission Report earlier in 2006 argued that China had not fully embraced "the key WTO principles of market access, non-discrimination, and national treatment," nor had "China fully

¹⁸ "A New High in the U.S./China Trade Deficit Is a New Low for American Manufacturing, Workers, and Agriculture," *U.S. Newswire*, February 13, 2007.

¹⁹ For a general discussion of how domestic political factors shape foreign policy see Eugene R. Wittkopf and James M. McCormick, eds., *The Domestic Sources of American Foreign Policy*, 3rd ed. (Lanham, MD: Rowan and Littlefield, 1999). For a specific discussion of domestic factors in U.S.-China relations see Robert S. Ross, ed., *After the Cold War: Domestic Factors and U.S.-China Relations* (Armonk, NY: M.E. Sharpe, 1998); and Robert G. Sutter, *U.S. Policy toward China: An Introduction to the Role of Interest Groups* (Lanham, MD: Rowan and Littlefield Publishers, 1998). See also Steven Hook, "Sino-American Trade Relations: Privatizing Foreign Policy," in *Contemporary Cases in U.S. Foreign Policy: From Terror to Trade*, ed. Ralph G. Carter (Washington, D.C.: CQ Press, 2005), 303–30.

²⁰ USINFO, Press Release, December 12, 2006, "China Has Mixed Record on WTO Compliance, U.S. Trade Agency Says" ~ http://www.ustr.gov/Document_Library/Press_Releases/2006/December/Annual_USTR_Report_to_Congress_Finds_Mixed_Record_by_China_in_Implementing_World_Trade_Organization_Obligations.html; and United States Trade Representative, *2006 Report to Congress on China's WTO Compliance*, December 11, 2006 ~ http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file688_10223.pdf.

institutionalized market mechanisms and made its trade regime predictable and transparent.²¹

China's continued mixed record on its WTO obligations is a harbinger for future problems and comes at an important time when many—particularly within Congress—see China's "free pass" on trade as essentially over. Six years after the country's entry into the WTO there are calls for China to be held fully accountable for its WTO obligations as a mature trading partner. There are correspondingly greater expectations for China to play a more significant role in strengthening the global trading system. Deputy USTR Karan Bhatia's testimony before Congress in February 2007 called for the use of enhanced enforcement tools such as the WTO dispute settlement system as well as regularly scheduled senior dialogues to address critical economic issues, and coordinated meetings at the working level both to seek Chinese commitments to greater market access and to address persistent problems such as IPR violations.²² The remainder of the essay will analyze the Bush administration's response to the two-level China challenge, that is, the imperative to maintain the bilateral relationship while addressing the domestic political context.

CHANNELING CHINA'S BEHAVIOR IN A POSITIVE DIRECTION

The challenge in shaping a coherent foreign economic policy across presidential administrations has been due in part both to the lack of consistent coordination mechanisms in the U.S. government and to the way in which policy authority is spread across a broad set of bureaucracies. As the State and Defense Departments, among others, have competed in the realm of high national security policy from Richard Nixon forward, authority for foreign economic policy has remained diffuse.²³ After World War II the State

²¹ Thomas J. Christensen, "China's Role in the World: Is China a Responsible Stakeholder?," statement before the U.S.-China Economic and Security Review Commission, August 3, 2006 ~ http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_08_3_4wrts/06_08_3_4_christensen_thomas_statement.pdf, 29.

²² Karan K. Bhatia, "U.S.-China Trade Relationship," written testimony before the House Ways and Means Subcommittee on Trade, February 15, 2007 ~ http://www.ustr.gov/assets/Document_Library/USTR_Testimony/2007/asset_upload_file596_10530.pdf, 1-3.

²³ Rather than creating an organized coordination process, the NSC system with a national security advisor serving as advocate has led to bureaucratic politics dominating U.S.-China relations since rapprochement. The Kissinger-Rogers and Brzezinski-Vance fights reflect a pattern mirrored both in economic policymaking in the Clinton administration and in the Powell-Rumsfeld divide in the George W. Bush administration. Further, regarding China, the Defense and State Departments have competed for control of the policy agenda with the Defense Department placing emphasis on the China threat scenario and hedging strategy in contrast to the State Department's focus on maintaining overall stability in the relationship.

Department lost its lead agency status and the Treasury Department grew in prominence, but without growing enough to coordinate foreign economic policy effectively. I.M. Destler, for one, argues that an important consequence of the decentralized economic complex, in contrast to the centralized security complex, has been confusion in operational responsibility. Although a shared free market ethos flourishes across departments as a general policy goal, differences exist over the specific priorities and policy tactics to pursue.²⁴ For example, the Treasury Department's prioritization of monetary matters differs from the USTR's or from the Commerce Department's emphasis on trade. Further, the current environment within which policy toward China develops is much like the contentious bilateral relationship with Japan in the 1980s when bureaucratic differences among the relevant U.S. agencies complicated coherent policy development. In the case of Japan, the Defense Department, State Department, and NSC were focused on geopolitical concerns and remained protective of Japan's strategic value while the Commerce Department, USTR, and other agencies were worried about the health of the U.S. economy and favored a tougher stance.²⁵ These groups' competing agendas made it difficult to keep the resulting bureaucratic parochialism in check.

As scholars such as Graham Allison and Charles Maechling argue, the vested interests and different statutory responsibilities of each bureaucracy make struggle over control of the policy agenda an almost foregone conclusion. The general policy guidelines, statutory restrictions, and prior decisions that shape how bureaucracies respond to problems can lead to turf battles among bureaucracies that share authority over a broad policy.²⁶

President Clinton's answer to this problem was to elevate the prominence of foreign economic policy by creating the NEC as the equivalent of an early NSC for foreign economic policy. Core groups from the NSC, the State, Treasury, and Commerce Departments and the USTR's office worked to build

²⁴ I.M. Destler, "A Government Divided: The Security Complex and the Economic Complex," in *The New Politics of American Foreign Policy*, ed. David A. Deese (New York: St. Martin's Press, 1994), 132–47.

²⁵ Robert Pear, "Confusion Is Operative Word in U.S. Policy toward Japan," *New York Times*, March 20, 1989, 1.

²⁶ Charles Maechling, Jr., "Foreign Policymakers: The Weakest Link," *Virginia Quarterly Review* 52 (Winter 1976): 1–23. For the classic discussion of bureaucratic politics see Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little & Brown, 1971).

a policy community.²⁷ Yet in creating a new center of authority, ostensibly to better coordinate policy, the NEC in practice pitted economic engagement advocates against human rights hard-liners, thus exacerbating policy coordination problems. Until the development of consistent presidential involvement well into Clinton's second term, the NEC provided some coordination for economic engagement but failed to prevent bureaucratic infighting.

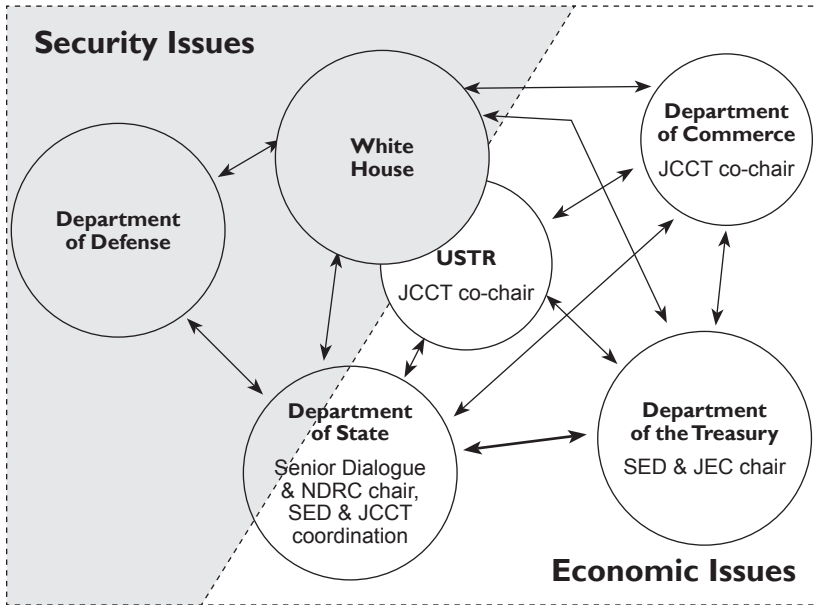
Despite Bush's endorsement of Clinton's NEC structure, the usefulness of the body as a policy coordination mechanism for Bush remains unclear. Due to the turn over Bush has experienced within the NEC, particularly in the positions of national economic advisor and treasury secretary, the NEC has not served the same coordinating role. For much of his administration Bush's economic policy has remained diffused in large part because the president has focused his attention on the war on terrorism and policy toward Iraq. Without White House interest and involvement, parochial interests within the Treasury Department, Commerce Department, and USTR, among others, have shaped development of different strands of China policy. A series of contentious bilateral dialogues—under the authority of different bureaucracies—has shaped the bilateral economic dialogue. For example, the Commerce Department's interest in punishing China for IPR violations has often clashed with the State Department's desire for patience in efforts to convince Beijing that enforcing IPR is in China's best interest.

The increased presence of the State Department in coordinating foreign economic policy in conjunction with the president's authorization since Henry Paulson became secretary, for the Treasury Department to take the lead in this area has brought new coherence and a broader policy focus to Bush's foreign economic policy. **Figure 1** documents the interaction among various relevant players at multiple levels in the U.S.-China bilateral dialogue. The new Strategic Economic Dialogue (SED) coordinated by Treasury Secretary Henry Paulson as well as the U.S.-China Senior Dialogue formulated by former deputy secretary of state Robert Zoellick represent a set of institutionalized senior-level dialogues that acknowledge the need for more centralized management across the various bureaucracies involved in

²⁷ I.M. Destler, *The National Economic Council: A Work in Progress* (Washington, D.C.: Institute for International Economics, 1996); Stephen Cohen, *The Making of United States International Economic Policy: Principles, Proposals, and Prospects for Reform* (New York: Praeger, 2000); Christopher Dolan and Jerel Rosati, "U.S. Foreign Economic Policy and the Significance of the National Economic Council," *International Studies Perspectives* 7, no. 2 (May 2006): 102–23; For a general discussion of the making of U.S. foreign economic policy see Jerel A. Rosati and James M. Scott, *The Politics of United States Foreign Policy*, 4th ed. (Belmont, CA: Thomson-Wadsworth, 2007), ch. 9.

FIGURE 1

Interactions of U.S. Stakeholders in U.S.-China Bilateral Dialogue



Note: Circle size represents relative importance and influence in dialogue.

the complex bilateral relationship. The SED, in particular, serves as the new management tool to coordinate such well-established bilateral dialogues as the Joint Economic Commission (JEC) between the Treasury Department and China’s Ministry of Finance, the Joint Commission on Commerce and Trade (JCCT) traditionally between the Commerce Department and China’s Commerce Ministry, and the four-year old Economic Development and Reform Dialogue between the State Department and China’s National Development and Reform Commission (NDRC).

Both the JEC and JCCT began as broad economic dialogues but have since settled into a “deliverables model” that seeks tangible progress in specific foreign economic issues as an outcome of each meeting. The JEC inaugurated in 1983 organizes financial and monetary talks. In recent years this forum became the site for contentious discussions in which the treasury secretary pressed for reform in China’s exchange rate regime and progress in developing financial markets to aid economic growth. Lacking clear progress in 2005, then secretary John Snow acknowledged

to administration critics that it would take time for China to prepare for further reform moves, including building the necessary financial infrastructure.²⁸ In recent years the JCCT, also established in 1983, has been used as a forum to make progress on specific problems plaguing the bilateral trade relationship. In April 2004 the JCCT was elevated to the cabinet level and was co-chaired by Vice Minister Wu Yi, Secretary of Commerce Don Evans, and USTR Robert Zoellick. In this forum the U.S. government pushed for IPR reform and sought further commitments for China's WTO compliance. Among the modest deliverables from the 2004 meeting was the formation of an IPR Training Coordination Group, a U.S. interagency group chaired by the State Department. This group was charged with crafting a technical assistance program that would support China's commitments to increase IPR enforcement. With a consistent lack of concrete deliverables, these dialogues tended to fuel China's critics within Congress and affected business interests because expectations for specific progress have gone unmet.

A new dialogue initiated in November 2003 by Undersecretary of State Alan P. Larson with China's long-term planning commission, the NDRC, became a new forum to share ideas rather than complaints—a mechanism meant to give the State Department a seat at the economic policymaking table. The objective of the Economic Development and Reform Dialogue was to establish a regular line of discussion on strategic issues in order to emphasize the exchange of information and mutual learning. The focus of this meeting was on macro-level policy intended to bring about dialogue on broad economic reform, cooperation on international economic issues, and U.S. partnership in China's development. The second NDRC meeting in April 2004 was oriented toward dialogue on long-term development and restructuring issues such as market economics, addressing challenges in Northeast China's rust belt, Western development, and energy cooperation. Since then, more recent topics have included developing a social safety net and unemployment security in China.²⁹ Each NDRC dialogue has sought to establish a broader relationship and to reaffirm that China would follow the path of market reform. As such these meetings emphasized dialogue over

²⁸ Zhang Dingmin and Su Bei, "More Flexible Exchange Rate System Promised," *China Daily*, October 15, 2005 \approx http://www.chinadaily.com.cn/english/doc/2005-10/18/content_485715.htm.

²⁹ Randall G. Schriver, "China and the WTO: Compliance and Monitoring," testimony before the U.S.-China Economic and Security Commission, Washington, D.C., February 5, 2004 \approx <http://www.state.gov/p/eap/rls/rm/2004/28957.htm>.

deliverables, common interests, and the sharing of information with an eye toward overcoming some chronic problems in the bilateral relationship.

The Economic Development and Reform Dialogue model coordinated interagency engagement, aiming for less structure than other dialogues such as the JCCT but greater information sharing to help each group understand the other's perspectives. In April 2004, under the auspices of the State Department and Under Secretary of State Alan Larson, the Council of Economic Advisors and the Treasury, Commerce, and Energy Departments, among others, worked on a variety of issues of common concern in a joint effort that discouraged the parochialism (or the stovepipe syndrome) common in previous dialogues.³⁰ Through the dialogue model with the NDRC, the State Department became a more active player in coordinating the broad outlines of the bilateral commercial relationship.³¹

Like the NDRC dialogue, the new senior-level policy dialogues developed over the last two years have emphasized the overarching macro-economic equation such as China's economic development strategy and pursuit of economic reform as well as the overall U.S.-China trade relationship. These regularly scheduled dialogues represent the Bush administration's recognition of the need to discuss the strategic and conceptual framework of the U.S.-China relationship given China's important role both in Asia and in global affairs.³² The first senior-level dialogue to work from the responsible stakeholder rubric was the State Department's Senior Dialogue meeting in August 2005 (and again in December 2005) involving then deputy secretary of state Robert Zoellick and Chinese Executive Vice Foreign Minister Dai Bingguo. In November 2006, following Zoellick's resignation, Undersecretary of State Nicholas Burns held a third round of the Senior Dialogue. Although called "fruitful," this meeting was a place-holder session largely because of

³⁰ The stovepipe syndrome refers to a situation in which agencies and different levels of government do not communicate with each other, thus leading to little sharing of information or coordination despite shared jurisdiction across policy areas. The failure to put the pieces of the intelligence puzzle together prior to September 11 has been described as an example of stovepiping. See Larry Downes, "Connect Government Stovepipes" *USA Today*, June 6, 2002, 13a.

³¹ According to knowledgeable officials, this model developed from the U.S.-Japan Strategic Impediments Initiative whose principal function was to address fundamental causes of the U.S.-Japan economic conflict. A series of bilateral U.S.-Japan negotiations from the late 1980s through the early 1990s (known under Clinton as the United States-Japan Framework for a New Economic Partnership) addressed barriers inside the Japanese and U.S. economies that impeded the international flow of goods and services. The focus on the strategic economic relationship provided means for officials to buy time and to avoid a domestic crisis regarding U.S. policy toward Japan. For a discussion of efforts to cement a strategic economic relationship see Robert C. Fauver, "U.S.-Japan Comprehensive Economic Partnership Agreement: Cementing a Geostrategic Economic Relationship," *SAIS Review* 23, no. 2 (Summer-Fall 2003): 23-39.


³² Kerry Dumbaugh, "China-U.S. Relations: Current Issues and Implications for U.S. Policy", CRS Report for Congress, January 20, 2006, 3-4.


Paulson's entrance as treasury secretary and the dearth of high-level expertise on China in the State Department since Zoellick's departure.³³ The two sides did, however, discuss how the United States and China as partners could take steps to secure stability and peace in the world.³⁴

The advantage of this dialogue led by the State Department was that it allowed the two sides to discuss a wide range of strategic issues, anticipate challenges, and discuss problems openly. Zoellick's interest, knowledge, and expertise as the former USTR raised the dialogue from the working level (at first held in conjunction with the NDRC dialogue) to focus on the strategic context of the economic relationship as well as other cross-cutting issues. As several government sources noted, in keeping with Zoellick's interests, the dialogue covered issues ranging from trade and economic concerns to strategic matters such as energy security, cooperation against terrorism, democracy, and human rights. Commenting on the second Senior Dialogue in December 2005, Zoellick stated "[s]trategic discussions such as the one we've just completed are designed to look across the spectrum of our relationship, anticipate issues, and discuss a conceptual framework for how we can make our shared future better."³⁵

The Senior Dialogue was heralded as an opportunity both to strengthen the complex ties between the United States and China and to create a regular forum in which to ease tensions that frequently flare up. Because the dialogue was below the summit level it also brought the two sides together at a level where issues could be understood more fully and each side could be sensitive to the other side's respective interests and domestic considerations. Talks specifically stayed away from detailed discussion of the most sensitive topics (such as the trade deficit) in order to focus on more general foreign policy issues. Apparently experts saw the format as a pattern of positive engagement that respected China as an emerging political and economic power and acknowledged that strategic concerns could be managed in this type of

³³ With the departure first of Deputy Secretary Richard Armitage and then his replacement Robert Zoellick, the State Department lost much of its depth in high-level expertise on Asia in general and China in particular. Further, Assistant Secretary Christopher Hill (James Kelly's replacement in the Bureau of East Asia and Pacific Affairs) has a background in Europe rather than Asia and has focused his efforts on the six-party talk process rather than the broader bilateral dialogue. This leaves China policy coordination to the deputy assistant secretary level which, although staffed with capable people, makes for an uneven fight when the State Department faces more prominent officials from other bureaucracies.

³⁴ See Li Xing and Qin Jize, "Sino-US. Strategic Dialogue 'Fruitful,'" *China Daily*, November 9, 2006  http://www.chinadaily.com.cn/china/2006-11/09/content_728233.htm.

³⁵ Robert Zoellick, Statement on Conclusion of the Second U.S.-China Senior Dialogue, U.S. Department of State, Office of the Spokesman, December 8, 2005  <http://seoul.usembassy.gov/china20051208.html>.

forum.³⁶ According to Jeffrey Bader from the Brookings Institution, the format was about “increasing understanding, not about defining policy.”³⁷

The Senior Dialogue set the pace and model for more ground-breaking discussions in the SED, led by the Treasury Department and coordinated with the help of State Department personnel. Secretary Paulson’s visit to China in December 2006 marked the highest-profile trade mission the United States had ever sent to China. The first meeting of the SED, co-chaired by China’s foreign trade authority, Vice Premier Wu Yi, included the secretaries of commerce, labor, health and human services, and energy while the Chinese side was represented by more than ten ministries including finance, development and reform, science, labor, railway, communications, health, environment, and the central bank.³⁸ Issues such as trade reform, global current account imbalances, capital market reform, and China’s growth strategy and exchange-rate policy as well as environmental and energy cooperation set the agenda. The prominence given to the SED by the high level attendance on both sides has established an overarching bilateral economic framework designed to make the most of the various existing bilateral commissions and dialogues. The purpose of the SED is to focus on long-term strategic challenges rather than solely to seek immediate solutions to specific issues of the day.³⁹

Although Chinese President Hu Jintao has lauded the SED as a dialogue “that not only helps improve Sino-U.S. economic and trade cooperation, but also has the positive impact on development of the regional and world economy” and although Paulson is hoping that the discussion will facilitate China’s successful integration into the global economy, the SED’s future success is an open question.⁴⁰ Anticipating criticism at home, the Bush administration specifically designed the first meeting to avoid politically sensitive short-term issues or high expectations for deliverables. Just as the importance of the Strategic Dialogue hinged on Zoellick’s participation, the

³⁶ See Michael Rice, “Bridging the Gap,” *Beijing Review* 49, no. 3 (January 19, 2006): 12–13.

³⁷ David Lague, “New China-U.S. Dialogue Could Strengthen Complex Ties,” *International Herald Tribune*, November 23, 2005.

³⁸ Mu Xuequan “Hu: Strategic Economic Dialogue New Opportunity for Cooperation,” *Xinhua News*, December 15, 2006 ~ <http://www.chinaview.cn>.

³⁹ Office of the Press Secretary, Press Release, September 20, 2006, “Statement by the President: Creation of the U.S.-China Strategic Economic Dialogue”; and Department of Treasury, September 20, 2006, “Fact Sheet: Creation of the U.S.-China Strategic Economic Dialogue” ~ http://shanghai.usconsulate.gov/u.s.-china_economic_dialogue.html.

⁴⁰ Mu, “Hu: Strategic Economic Dialogue”; United States Department of the Treasury, Press Release, December 13, 2006, “Opening Statement by Secretary Henry M. Paulson before the Opening Session of the U.S.-China Strategic Economic Dialogue” ~ <http://www.ustreas.gov/press/releases/hp197.htm>; and United States Department of the Treasury, Press Release, December 15, 2006, “Statement from Treasury Secretary Henry M. Paulson, at the Closing of the U.S.-China Strategic Economic Dialogue.”

success of the SED may hinge on Paulson's role and the space he is given to operate. Former Treasury Department official Albert Keidel argues that with the SED Paulson gained greater authority than his predecessors to cut across bureaucratic turfs and to coordinate Sino-U.S. economic policies across U.S. government agencies.⁴¹ Certainly the SED provides an overarching framework under which other ongoing bilateral dialogues such as the JCCT, the JEC, and the Economic Development and Reform Dialogue can take place. The future effectiveness of these efforts, however, depends upon the degree to which they become institutionalized.

CONCLUSION

With China having attained the status of an economic superpower, the U.S. bilateral relationship with China has grown into the most important relationship the United States has with any single country. To promote U.S. interests effectively, this essay argues that the president must authorize someone to take the lead in the foreign economic policy sphere. Each of the three presidents—George H.W. Bush, Clinton, and George W. Bush—recognized the strategic importance of the growing trading relationship and, during his respective administration, became aware of the need to build a means to coordinate policy. In more than one instance, presidential involvement has been the key in overcoming domestic opposition and bureaucratic resistance. A president's central involvement or his empowerment of key officials by decree or through a structure such as the NEC is crucial.

An analysis of the George W. Bush administration's policy process also illustrates that advancement in the bilateral economic relationship requires a coordinated interagency effort. Early on within the Bush administration the Treasury and Commerce Departments and USTR took prominent roles in various bilateral dialogues, but no one actor had the authority to coordinate the overall economic relationship. This dearth of authority allowed individual agencies to promote narrow bureaucratic interests. The development of dialogues—one led by the State Department and one led by the Treasury Department but coordinated by the State Department—formalized the administration's contacts at a high level with Chinese implementing agencies. Thus the SED can be a useful event for forcing action, offering greater potential to change minds and policies at home and abroad. Unlike the JCCT,

⁴¹ USINFO, "China Has Mixed Record on WTO Compliance."

the long-term and broad objectives beyond trade can concentrate attention on the macro-economic situation. Emphasizing dialogue over deliverables in the first SED, the Senior Dialogue, and the NDRC dialogue provide the first step to encourage China, leery of criticism, to the negotiating table on broader terms.

The NDRC and the senior dialogues have brought the State Department back into the domestic calculus of foreign economic policy. The advantage the State Department brings is its unique perspective on how policies on individual issues affect the overall foreign and economic policy agenda in the United States, a global propensity not present in other bureaucracies, and the patience for a focus on mutual benefits that is not immediately results oriented. The State Department also has the unique role of sharing information specific to relations with China as the monitor and enforcer of China's implementation of its WTO commitments.⁴² The coordinating and preparatory roles of the State Department have been essential to the NDRC, Senior, and Strategic Economic Dialogues.

Effectively coordinating the various government branches and other political actors remains a daunting challenge. The two-level game nature of the relationship and the competing interests over China persist. Each administration has faced a Congress determined to maintain its influence in trade policy. George H.W. Bush and Clinton fought to preserve MFN for China each year against yearly challengers. Clinton pushed for PNTR and China's entry into the WTO against opposition. George W. Bush faced obstacles in supporting China's entry into the WTO and increased bilateral negotiation structures to push for China's compliance on its WTO obligations. The coordination equation Bush faces is more complex now than ever because the government must coordinate engagement on multiple fronts at home.

The Bush administration appears to have succeeded to date in its efforts at home and abroad in part because it has come up with a concept for engagement—responsible stakeholder—that placates critics while providing a rubric to shape progress with China. The real domestic test, however, comes with each new trade deficit report, release of job loss figures, and other evidence showing that the responsible stakeholder rubric is only another fragile umbrella concept. The test for the success of the responsible stakeholder concept and the emphasis on dialogue rather than deliverables relies on making continued progress in areas of concern such as currency valuation, trade imbalances, and IPR violations. Without tangible progress on

⁴² Schriver, "China and the WTO."

these fronts domestic critics will pressure the administration to seek greater concessions despite the administration's efforts to control the policy agenda.

With greater economic interdependence comes greater vulnerability. Rather than seeing the cross-Strait relationship as the most likely flashpoint in the U.S.-China relationship, the government should understand that economic issues such as disruption to financial flows and IPR have the ability to upset domestic forces that insist on change. This is more dangerous now because of U.S. vulnerability to economic conditions in China due to greater interdependencies and because the nature of this system means that the ability of the United States to influence China directly has diminished over time. This reality left George H.W. Bush, Bill Clinton, and George W. Bush with the realization that the only viable policy alternative is to manage the relationship by recognizing the areas of common interest and disagreement. 