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## Economic, Cyber Espionage Issues May Dominate US-China Talks

by Natalie Liu



As the United States and China open the fifth round of their Strategic and Economic Dialogue Wednesday, top U.S. officials are optimistic the two sides will agree to cooperate on a range of strategic issues. But major differences, analysts say, could emerge in the economic discussions where the intense competition between the two nations is highlighted by the controversy surrounding cyber security.

This latest round of talks is taking place at a time when the U.S. job market is showing signs of steady improvement -- while China's economy appears to be heading into rough waters.

George Haley, author of two books on China - *The Chinese Tao of Business*, and *Subsidies to Chinese Industry*, says many Chinese industries have large over-capacity.

"For instance, the solar panel industry - China's production capacity is actually 200 percent of worldwide demand; you have 20 or 30 percent over capacity in industry after industry that has been receiving government support - steel, auto parts, paper, chemicals," he said.

Over-capacity, falling demand from overseas and impending high unemployment could pose a real threat to economic and social stability as Chinese companies face the increasing challenge of turning a profit.

"China's goal is still market access," said longtime Chinese activist Wei Jingsheng. "Without overseas markets, Chinese companies will have to immediately focus on China's domestic market, but it would be very difficult, almost impossible, for all these export-oriented companies to turn around fast enough."

Wei and others believe the symptoms of China's current economic problems are rooted in the so-called "Chinese model of development" which is directed and largely controlled by the state -- instead of relying on citizens' initiative and market mechanisms.

Meanwhile, the alleged Chinese state involvement in economic espionage through cyber intrusions has been the focus of Washington's complaints towards Beijing since the beginning of this year.

"Comparing American espionage with Chinese espionage: I freely admit - because I headed two espionage agencies - that we go out there to steal secrets to keep Americans free and to keep Americans safe," said Michael Hayden, a former director of both the CIA and the NSA. "We don't go out there to steal secrets to make Americans rich. The Chinese cannot make that statement with regard to their espionage activity."

On the Chinese side, in bilateral meetings held just a month ago in California, President Xi Jinping sounded an optimistic note on potential cooperation between the United States and China on cyber security.

"Through earnest cooperation, doubts and mistrust can be dispelled; going forward, cooperation in the area of information security and cyber security might indeed become a bright spot in bilateral relations," he said.

But analysts say it would be difficult for cyber security to become a "bright spot" in Sino-U.S. relations - and for foreign investment in China to remain unchanged - if Beijing does not pull back on economic theft and espionage.

"If they're proved to be engaging in really illegal, exploitative behavior and deception, they promised they are not, this affects a lot of companies' investment decisions to invest in China," said Michael Pillsbury, a senior fellow at The Hudson Institute. "It would probably affect our Congress."

At the same time, analysts say the U.S. is determined to protect and preserve its competitive advantage in science and technology.

"From the U.S. position, economically speaking, it doesn't make sense to give up technology," George Haley said. "It's the country's competitive advantage, and it's already under very significant challenge worldwide."

The Strategic and Economic Dialogue concludes Thursday with the expected release of a joint statement.

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