

RELEASE IN FULL

From: Campbell, Kurt M <CampbellKM@state.gov>
Sent: Wednesday, July 27, 2011 10:50 PM
To: H; Sullivan, Jacob J
Subject: Fw: FT article

That's what I'm talking about. Great job to you both. Kurt

From: Patel, Nirav S
Sent: Wednesday, July 27, 2011 10:42 PM
To: Sullivan, Jacob J; Benaim, Daniel; Campbell, Kurt M
Subject: Fw: FT article

Guys see ft article below. Ft says it was "masterful."

Nirav Patel
Senior Adviser
Bureau of East Asia and Pacific Affairs

This message is sent via bb

From: McKellogg, Kelly E
Sent: Wednesday, July 27, 2011 10:30 PM
To: Patel, Nirav S
Subject: Fw: FT article

In case article was cut off in first email.

From: Weinhold, Scott
Sent: Wednesday, July 27, 2011 10:27 PM
To: McKellogg, Kelly E
Cc: Itoj, Kay
Subject: RE: FT subscription?

Here you go Kelly, thanks to Kay's quick work. I don't think any of the links in the story will work since they go to other FT articles, but at least you have the text.

Scott

FINANCIAL TIMES

July 27, 2011 10:15 pm

Hillary's charm offensive in China's backyard

By David Pilling

Hillary Clinton slipped across the border between Hong Kong and Shenzhen this week for a meeting with Dai Bingguo, her Chinese counterpart. One can make too much of these things. But there was something almost symbolic about the US secretary of state's back-door entrance into the world's second most important country.

Washington is seeking to re-establish a stronger presence in the Asia Pacific region, a part of the world relatively neglected by the former administration of George W. Bush. The US wants the region's trade and diplomatic relations to be run along international – the cynic might say American – lines. But times have changed. Business is increasingly conducted on China's terms. When, for example, Mrs Clinton told an Asian security gathering in Vietnam last year that the US was happy to mediate in disputes between China and its neighbours in the South China Sea, Beijing pushed back angrily. The US, though still a huge military, diplomatic and economic presence in the region, cannot assert its interests as forthrightly as it once could.

Washington's strategy is to try to slip back stealthily into the heart of Asia Pacific without ruffling Chinese feathers. It is a tall order. A hint of this delicate policy objective was on display in a speech Mrs Clinton gave in Hong Kong this week just before she poked her toe gingerly into mainland China. Entitled "Principles for Prosperity in the Asia-Pacific", the address masterfully avoided almost any mention of Beijing even though China lurked in the shadows. In apparent deference to Beijing, she even trod carefully in her remarks about Hong Kong, avoiding any reference to its frustrated progress towards a more genuine democracy.

Much of the speech focused on trade policy. Economics was, she said, "a priority of our foreign policy". But more strategic themes bristled beneath. The US had "underwritten" Asia's rising prosperity since the second world war with its strong commitment to regional security and trade. "We helped Japan and South Korea rebuild, patrolled Asia's sea lanes to preserve freedom of navigation, promoted global shipping and supported China's membership in the World Trade Organisation," she said. In case anyone thought she was talking only about the past, she made it clear America intended to pursue similar policies in the future. "We are a resident power in Asia – not only a diplomatic or military power, but a resident economic power, and we are here to stay."

But how will Washington shape regional rules when China has emerged as the ascendant power? In a version of the "responsible stakeholder" notion developed by Robert Zoellick, former deputy secretary of state, part of her answer is to bind Asia in general – and China in particular – into a rules-based trading system. "We must reach agreement on the rules and principles that will anchor our economic relationships in the coming decades," Mrs Clinton said.

Getting China into the WTO was part of that strategy. But there is much grit in the wheel. Part of the problem is the way in which Asia's web of trade pacts has developed. Mrs Clinton called them a "hodgepodge". They certainly do not look like the consistent, rules-based arrangement Washington advocates. The 10-member Association of South East Asian Nations is the most coherent trade bloc in a region that has signed no fewer than 100 bilateral trade deals in a decade. In January, Asean concluded a free-trade agreement with Beijing, giving Chinese companies preferential access to its market of 600m people. The US is outside looking in.

Washington's own regional trade policy is in something of a shambles. The US signed a free trade agreement with South Korea in 2007, but Congress has yet to ratify it. The sprawling 21-member Asia-Pacific Economic Co-operation group, of which the US is a core member, is years away from concluding a free-trade deal. Mrs Clinton appears to be putting more hope in a nine-member sub-group of Apec – including Australia, Chile, Singapore and the US – to conclude a separate free-trade arrangement known as the Trans-Pacific Partnership.

But that mini-club won't have much sway without Japan. Even if Japan – by which I mean Japanese farmers – can be persuaded to join, the TPP is a pretty small acorn from which to grow a region-wide tree.

In China, Washington often looks powerless to prevent practices it considers unfair. Without naming Beijing as the culprit, Mrs Clinton listed some of the difficulties: closed procurement policies, abuse of intellectual property and preferential treatment, including cheap funding, for state-owned enterprises. “Fairness sustains faith in the system,” she scolded. “That faith is difficult to sustain when companies are forced to trade away their intellectual property just to enter.”

The US must indeed remain engaged in regional trade issues if it hopes to maintain influence. But getting China to abide by its rules will be more difficult. Besides, some issues are more pressing. On the day of Mrs Clinton's visit to Shenzhen, news got out that two Chinese fighter jets had recently chased a US spy aircraft across a dividing line in the Taiwan Strait. The timing of the leak may have just been coincidence. But clearly, Washington's ability to do as it pleases in China's neck of the woods is not what it was.

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