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CHINA NEWS

Kerry Discusses Cybersecurity With Chinese Counterparts

U.S. Secretary of State Calls Talks a 'Frank Exchange'

By IAN TALLEY and BOB DAVIS

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From left, Treasury Secretary Jacob Lew, Secretary of State John Kerry and Chinese Premier Li Keqiang meet Thursday in Beijing. *Reuters*

BEIJING—U.S. officials sought to brighten the mood at the end of two days of talks with Chinese counterparts that yielded scant progress on security and trade issues that have driven a wedge between the world's two biggest economies.

Secretary of State [John Kerry](#) said the annual talks, known as the Strategic & Economic Dialogue, showed "the U.S. and China are committed to a new model of relations based on practical cooperation, but also constructive management of differences." That was a theme echoed by Treasury Secretary [Jacob Lew](#) and by Chinese officials.

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The good vibes even included Mr. Kerry picking up a guitar

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during one lunch and playing the Beatles song "Yesterday," according to China's vice education minister, Hao Ping. Chinese officials also performed during the lunch, he said, which focused on educational issues. At the opening of the talks Wednesday, Chinese President [Xi Jinping invoked the American poet Marianne Moore](#), quoting "Victory won't come / to me unless I go / to it."

Mr. Kerry on Thursday highlighted several areas where the two governments are working together, including fighting wildlife trafficking and promoting energy efficiency.

But there were no agreements on how to resolve maritime border disputes, deal with industrial cyberespionage or what strategy to take to thwart North Korea's nuclear-weapons program or to enhance human rights.

Instead, Mr. Kerry said he had "a frank exchange" about China's cyberespionage with Chinese State Councilor Yang Jiechi, urging the government to restart a special working group on the issue that China canceled after U.S. prosecutors [indicted five Chinese military officers](#) in May for cybertheft. At a Chinese news conference, the cybersecurity issues weren't raised.

When it came to proliferation of nuclear weapons, Mr. Kerry said the two sides created a new working group on the subject.

The U.S. and China wrap up their annual Strategic & Economic Dialogue in Beijing this Thursday. South China Sea tensions figured high on the agenda. The WSJ's Ramy Inocencio speaks with Beijing reporter Jeremy Page for the details.

On economic issues, Mr. Lew, the Treasury secretary, said the U.S. had convinced China to reduce intervention in its currency markets to "what are really extraordinary circumstances." That would be a big win for the U.S., which has complained that China has intervened regularly since the start of the year to drive down the value of the yuan against the dollar to help its export sector.

U.S. Treasury officials said China's latest commitment, plus other steps toward transparency, marked a significant development.

But a fact sheet issued by the U.S. and China said only that China would "reduce foreign-exchange intervention as conditions permit"—without defining the conditions. China's central bank governor, Zhou

Xiaochuan, echoed the points on the fact sheet, without elaborating, in a news briefing.

On Wednesday, Finance Minister [Lou Jiwei](#) was more blunt. "It is very difficult for us to completely refrain from foreign-exchange market intervention," he said.

Cornell University China scholar Eswar Prasad said the two sides had hit upon a foreign-exchange formulation that "leaves enough wiggle room for both countries to claim progress on cooperation while continuing to implement monetary and exchange-rate policies that each side sees as in its own best interest."

In last year's talks, the biggest news was the restart of negotiations on what is called a bilateral investment treaty, which would reduce barriers to investment in both nations. At the time, China agreed to revamp its approach to investment approvals. Rather than requiring each investment to get government approval, investments could proceed unless they occurred in areas specifically deemed off-limits by Beijing—a so-called negative list. This was seen as significant because it would potentially reduce the power of China's bureaucracy to block deals and give market forces greater sway.

But since then, negotiators say, the talks have moved very slowly. On Thursday, China agreed to begin negotiations on the negative list next year. Meanwhile, negotiators are working on the treaty's language. Mr. Lew asked for patience. It is "always difficult and complicated" to complete such deals, he said.

Zhu Guangyao, China's vice minister of finance, said the two sides had made progress on the investment deal "but there will be great difficulties because China and the U.S. have very different national conditions and levels of development." China wants to make sure that it isn't unfairly penalized by the U.S. review of deals on national-security grounds, he said.

As for China, Mr. Zhu said, "the challenges are even bigger. We need a fundamental shift in our investment system."

The American Chamber of Commerce in China said that it "applauds the commitment" to an investment treaty which could "provide better market access and investment protections to both U.S. and Chinese investors. But Dan DiMicco, a former chief executive of U.S. steel firm Nucor Corp., was unimpressed. "More talk, no action, China wins again," he said.

One area the two sides did see eye-to-eye on is energy efficiency. The two nations agreed to adopt more stringent vehicle fuel-efficiency and greenhouse-gas emissions standards—though the report didn't include any specific numbers. Both nations also said they would improve fuel quality to reduce pollution and would speed development of systems that capture carbon dioxide emissions from coal-fired power plants and other energy sources and store the emissions.

The "China-U.S. partnership on [carbon-capture technology] has in many respects now left the theoretical feasibility realm and entered the 'steel in the ground' phase," wrote Sarah Forbes, a senior associate at the World Resources Institute, an environmental think tank in Washington.

On other issues, though, there was no meeting of the minds. The U.S. had hoped to convince China to agree to allow more high-tech goods to be imported duty-free, including advanced semiconductor material. China's reluctance to do so has held back global efforts to strengthen a 70-nation trade pact, called the Information Technology Agreement. But China hasn't made the concessions sought by the U.S.

The two sides held "constructive discussions" on the ITA, according to the fact sheet. Mr. Zhu had a

different take: "Although ITA expansion is currently at a standstill," he said, "the responsibility is not with the Chinese side."

—Richard Silk contributed to this article.

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