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Snowden Leaks Cloud U.S.-China Talks

NSA Consultant's Disclosures of U.S. Hacking Complicate Meetings

By THOMAS CATAN And JOSH CHIN [CONNECT](#)

WASHINGTON—When the U.S. and China hold their high-level meetings in Washington this week, the most important figure may be someone who isn't present.

The U.S. intends to press China over allegations that it routinely hacks into the computers of American companies to steal trade secrets. But a series of disclosures by [Edward Snowden](#), the fugitive National Security Agency consultant, have greatly complicated that task, U.S. and Chinese policy experts said.



Associated Press

President Barack Obama, left, and Chinese President Xi Jinping, right, with their respective delegations at the Annenberg Retreat in Rancho Mirage, Calif., in June.

While he was in Hong Kong, Mr. Snowden told the South China Morning Post that U.S. intelligence agencies had hacked into the computers of a wide range of nonmilitary foreign targets, including Chinese universities and cellphone companies.

"At a minimum, this has reduced our ability to cast ourselves as the injured party," said Kenneth Lieberthal, a China expert who served as a national security adviser in the Clinton White House, and is now at the Brookings Institution.

The U.S. pushed to elevate cybersecurity to the top of the bilateral agenda during a two-day meeting last month in California between President Barack Obama and his Chinese counterpart, [Xi Jinping](#).

At the time, Chinese officials insisted that they, too, were victims of computer intrusions. The claims were seen by many U.S. analysts as a way to sidestep the issue, but they have since been given greater credence by Mr. Snowden's revelations.

They also complicated U.S. efforts to draw a sharp distinction between espionage between states—which it says all governments engage in—and hacking into companies for competitive advantage.

What's News



What's News: Countries offering to accept Edward Snowden could face U.S. sanctions if he's taken in. Plus, graphic images from deadly violence in Cairo, and Netflix helping TV shows survive. Jason Bellini reports. Photo: AP

"We're talking about apples and oranges here," a U.S. administration official said Monday. "The U.S. government is talking about cyber-enabled theft of intellectual property. And so that doesn't have anything to do with

[the Snowden revelations.]"

It remains unclear whether Beijing will accept that distinction. The line between companies and government in China is often hard to discern.

Despite the difficulties, U.S. officials said Monday that they would continue to press the issue. U.S. officials fear that the country's key competitive advantage as a center of global innovation could be eroded if, as it alleges, China keeps taking its companies' intellectual property.

"What China is doing strikes right at the heart of America's core economic interest and Obama will not sit idly by as that occurs," said Mr. Lieberthal. "So the cybersecurity element is something that we will focus on like a laser beam."

Both sides are seeking to develop a set of basic ground rules defining acceptable behavior in cyberspace. China and the U.S., for example, would likely find wide agreement in preventing cyberattacks on civilian infrastructure, such as railroads, said Jia Qingguo, associate dean of Peking University's School of International Studies. That's because such action could easily bring the countries to the brink of war.

"Both sides would take extraordinary measures to stop such kinds of attacks," said Mr. Jia.

The talks will be the fifth round of the U.S.-China Strategic and Economic Dialogue, an annual event that alternates between the two capitals and which involves dozens, or hundreds of officials from both sides.

The main events take place on Wednesday and Thursday, though important preparatory meetings, including some between Chinese and U.S. military officials, take place earlier.

Another issue on the agenda is North Korea. U.S. officials are encouraged by signs China is increasing the pressure on North Korea, ordering its largest state bank to stop doing business with the country and calling on its ally to return to talks over its nuclear arsenal.

Ahead of the meetings between China and the U.S., North Korea indicated it was open to negotiations, saying that denuclearization of the Korean peninsula was the "dying wish" of former North Korean leader Kim Il-sung.

The U.S. says it is willing to participate in talks to resolve concerns about North Korea's nuclear arms only after the country takes what the State Department has described as "credible steps" to move toward scrapping its nuclear weapons.

The U.S. will also likely press China on a list of long-standing economic concerns. The U.S. wants Beijing to allow U.S. companies greater access to China's giant market, and wants Beijing to allow its currency, the yuan, to appreciate more. Many U.S. companies, unions and lawmakers contend China holds down the value of its currency for competitive advantage, which Beijing denies. A weaker yuan makes Chinese goods relatively cheaper on global markets.

China says it has allowed its currency to significantly appreciate against the dollar since 2010 and notes the trade deficit between the countries has shrunk considerably.

"The currency issue will come up but not, I think, with a great deal of stridency on the U.S. side," said Eswar Prasad, former head of the International Monetary Fund's China division.

China, meanwhile, wants greater leeway to invest in U.S. companies and freer access to U.S. technologies that are currently restricted by export controls.

One issue on which both sides are hoping to make progress is climate change. The topic has moved up the Chinese agenda over the past year, while the Obama administration recently announced a series of measures to combat greenhouse gases.

Last month, the two sides announced an agreement to limit powerful greenhouse gases known as HFCs, found in air-conditioners and refrigerators.

One factor limiting possible breakthroughs in the talks is the fact that all four co-chairs are new to their posts, and this negotiating table. U.S. Secretary of State [John Kerry](#) and Treasury Secretary [Jacob Lew](#) are scheduled to co-chair the U.S. side for the first time.

On the Chinese side, Vice Premier [Wang Yang](#) and State Councilor Yang Jiechi are also new in their posts.

"So, a lot of energy will be spent getting to know who is who and who does what at the table," wrote High Frequency Economics in a note to clients.

Other key officials attending the talks include U.S. Federal Reserve chairman Ben Bernanke and China's finance minister and central bank governor.

—Bob Davis and Brian Spegele in Beijing contributed to this article.

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