Comparative Connections
A Quarterly E-Journal on East Asian Bilateral Relations

# U.S.-China Relations:
# Disharmony Signals End to Post-Sept. 11 Honeymoon

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America's grievances with China mounted this quarter, signaling a likely end to the post-Sept. 11 honeymoon in China-U.S. relations and the beginning of a rocky phase. On a range of trade and economic issues, the Bush administration adopted a harsher stance, increasing pressure on Beijing to appreciate its currency to fend off criticism from Congress and domestic groups that blame China for stealing U.S. jobs and unfairly creating a massive trade surplus with the United States. Trade officials began taking action to curtail the flood of Chinese textiles and punish China for widespread violations of intellectual property rights. A takeover bid for Unocal Corporation by the PRC's state-owned China National Offshore Oil Company (CNOOC) raised cries in some quarters that Beijing's offer was part of a long-term national plan to gain strategic advantage over the U.S.

Washington leaned harder on Beijing to apply economic and diplomatic pressure on North Korea to rejoin the Six-Party Talks aimed at eliminating its nuclear weapons programs. U.S. officials openly declared that they hold China largely responsible for reining in the nuclear ambitions of its formerly "close as lips and teeth" ally, North Korea.

China's military buildup also came under sharper criticism. Defense Secretary Donald Rumsfeld bluntly warned Beijing that its military spending and procurement programs are unjustified by any threat it faces. And China's human rights abuses and suppression of political dissent and religious freedom figured prominently in U.S. official statements and reports issued this quarter.

Mindful of the benefits to the U.S. of cooperation with China where the two countries' interests overlap and the dangers of engaging in full-blown strategic competition with China, President Bush and his Cabinet members attempted to keep the bilateral relationship on an even keel, while urging Chinese leaders to modify their policies to make them more compatible with U.S. national interests.

**Much talk, but no breakthrough on North Korea**

Growing frustration in Washington about North Korea's refusal to set a date for resuming Six-Party Talks to discuss eliminating its nuclear weapons programs prompted greater pressure on Beijing this quarter to use the full range of its leverage over Pyongyang to compel North Korean leader Kim Jong-il to return to the negotiating table. U.S. officials continued to highlight shared interests with China in peacefully resolving the impasse through diplomacy and regularly praised Beijing for playing a constructive role, but at the same time efforts were stepped up both publicly and privately to lean on Beijing to bring North Korea around.

Amid signs that North Korea might be preparing to conduct a nuclear weapons test, newly appointed Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill traveled to Seoul, Tokyo, and Beijing in late April. While in China, Hill reportedly asked Chinese officials to cut off North Korea's oil supply, presumably for several days as many believe Beijing did in March 2003 to signal its displeasure with Pyongyang's policies and its refusal to negotiate. The Chinese rebuffed Hill's request, contending that a shutdown would damage the pipeline running from China's northeastern province of Liaoning to North Korea because the fuel has a very high paraffin content that can quickly build up and clog the oil flow. A Chinese Foreign Ministry official complained to *The New York Times* that the United States is focused on too narrow a range of tools for China to influence Pyongyang.

A month later, Hill unequivocally assigned China responsibility for bringing North Korea back to the multilateral talks. At a hearing on U.S. relations with Northeast Asia held by the House Committee on International Relations, Subcommittee on Asia and the Pacific, Hill maintained that as the host of the six-party process, China "ought to deliver participants to the table." Hill asserted that the Chinese have "enough influence" to enable them to convince a country "that they call a close friend" to come to the table, and "they haven't done it." On May 30, the administration's message was reinforced by Vice President Dick Cheney who bluntly stated on *CNN's* "Larry King Live" "The Chinese need to understand that it's incumbent upon them to be major players here."

North Korea was a central topic of discussion in phone calls between Presidents George Bush and Hu Jintao on May 5 and between Secretary of State Condoleezza Rice and counterpart Li Zhaoxing on June 2. President Bush publicly admitted in his May 31 press conference that the U.S. and China are spending a great deal of time discussing North Korea. Moreover, he lauded China's role as a partner in "helping to secure" the Korean Peninsula from nuclear weapons.

Nevertheless, senior Bush administration officials continued to urge the Chinese to supplement their carrots to Pyongyang with threats of negative consequences for failing to rejoin the multilateral process. Undersecretary of State Robert Joseph intensified public pressure on Beijing in late June when he told reporters "China has to make a decision how to influence North Korea," adding that "It has a number of tools." Joseph then went further and threatened "very significant consequences for U.S.-Chinese relations" if China fails to take more action. The shot across the bow undoubtedly irritated Beijing. It remains unclear, however, whether this harsher stance represents Joseph's personal view or broader administration thinking and policy.

As Washington blamed China for not doing enough to persuade the North Koreans to join in a sixth round of the Six-Party Talks, Beijing pointed the finger at the U.S. for not addressing Pyongyang's concerns and failing to provide sufficient inducements that China can use to more effectively engage North Korea. "China has done a very good job. But China alone is not enough," Foreign Minister Li told reporters in early May while attending a meeting in Tokyo. Beijing continued to even-handedly call for both the U.S. and North Korea to show greater flexibility. This was demonstrated during Hu's meeting with South Korea's Prime Minister Lee Hae-chan in late June in which Lee's spokesman quoted Hu encouraging close cooperation between China and South Korea to get North Korea and the U.S. to be "more flexible" so that the early resumption of the Six-Party Talks could be realized.

Reports that Washington was considering taking up the North Korea nuclear weapons issue in the UN Security Council provoked warnings from Beijing that it would not support such an effort. China's UN Ambassador Wang Guangya bluntly criticized any attempt to get the Security Council to impose sanctions on North Korea as "likely to destroy the whole process" of seeking a diplomatic resolution through the Six-Party Talks. Privately, the Chinese admitted their growing discontent with North Korea's policies, but insisted that exerting pressure by curtailing energy and food supplies would not likely result in Pyongyang's compliance and would be potentially dangerous for Chinese interests. From China's perspective, the benefits of applying pressure are uncertain, while the risks are apparent. The already tenuous relationship between China and North Korea would likely be damaged, perhaps irreparably; Beijing's influence over North Korea would diminish; and North Korea could be destabilized, unleashing a flood of refugees across the border into northeast China. Moreover, North Korea might still refuse to resume the multilateral talks and might even proceed with a nuclear explosion or test its *Taepodong 2* intercontinental ballistic missile.

**Sounding the alarm on China's military**

Rising U.S. concern about China's military buildup, already apparent in the early months of 2005, gained steam this quarter. Assistant Secretary of Defense Peter Rodman testified that although China's overall capabilities lag far behind the U.S., the PLA has already achieved "a significant asymmetric capability that raises the risks to U.S. forces." He described China not only as a future challenge, but also "a problem here and now."

In a keynote address at an Asian security conference in Singapore sponsored by the London-based International Institute for Strategic Studies in early June, Defense Secretary Rumsfeld maintained that China's military spending, particularly its investment in missiles and advanced military technology, pose a threat not only to Taiwan and to American interests, but also to nations across Asia. He questioned the purpose of China's growing investment in its military, claiming that "no nation threatens China." Rumsfeld called for China to match its economic liberalizations with domestic political freedoms. If China fails to move toward a freer political system, he predicted that it would "grow less fast and be a less influential country." To an audience largely composed of defense ministers and other senior officials from Asia, the message seemed out of step with the increasingly cooperative relationships that China has forged with its neighbors in recent years and heightened fears about a possible U.S.-Chinese confrontation in Asia.

Although prospects for lifting the EU arms embargo against China this year have dimmed, in part due to Bush administration lobbying to keep the restrictions in place, worries persist that removing those restrictions anytime soon could negatively affect Asia-Pacific stability. In mid-April, senior U.S. officials from the Departments of State, Commerce, and Defense addressed the dangers of lifting the EU arms embargo at a joint hearing of the House Armed Services Committee and International Relations Committee. The issue of Israeli arms sales to China, a major irritant between Washington and Jerusalem, may have been finessed with an agreement hammered out in late June that would effectively give the U.S. veto power over Israeli arms sales to China and allow upgraded technological cooperation between Israel and the United States.

The Pentagon's annual report to Congress on the Military Power of the People's Republic of China, due last March, has yet to be delivered, but its contents were foreshadowed in Rumsfeld's Singapore speech and numerous media reports. The report apparently maintains that China is pursuing an ambitious, long-term transformation of the PLA to develop the capability to fight and win short-duration, high intensity conflicts along its periphery. Double-digit increases in military spending for the past 15 years are credited with producing steady improvements across force structure, doctrine, organization, and personnel. China is improving its ability to project power and is shifting the cross-Strait military balance in its favor. Drafts of the document have been circulated and rewritten during the quarter as officials try to strike the right balance between criticizing China's military buildup and praising its cooperation on security issues such as North Korea and counterterrorism.

**Human rights and democracy remain on the radar screen**

China's human rights abuses and the systematic suppression of political dissent were highlighted by Susan W. O'Sullivan, a senior adviser for Asia in the State Department's Bureau of Democracy, Human Rights, and Labor, in a statement before the U.S.-China Economic and Security Review Commission. Addressing China's increased control over the Internet, O'Sullivan underscored the Chinese government's heavy investment in new technology to selectively block offending material temporarily or permanently, or edit it electronically, as well as the common practice of closing down websites. In addition, O'Sullivan expressed U.S. disappointment about the slow pace of political reform under the fourth generation of leaders. President Bush emphasized the need for greater religious freedom in China in an interview with *Reuters* in which he revealed that he is constantly reminding Chinese leaders that "a great society is one that welcomes and honors human rights, for example, welcomes the Catholic Church in its midst, doesn't fear religious movements."

In an interview with *Bloomberg News*, Secretary Rice drew a contrast between the lack of democratization in China and the situation in India, which she termed a "quite remarkable democracy." In an implicit reminder to Beijing that the establishment of mutual trust is hampered by China's socialist political system, Rice noted that "our view is that democracies tend to be stabilizing in their activities and behaviors." Addressing the Commonwealth Club of San Francisco in late May, Rice expressed hope that China would conclude from the experience of other Asian countries that political openness is a prerequisite for lasting success.

**Shaping China's rise**

In a comprehensive statement on China policy to the House Subcommittee on East Asian and Pacific Affairs on June 7, Assistant Secretary Hill addressed the economic and security consequences for the U.S. of China's emergence in the Asia-Pacific. Hill reiterated Secretary Rice's assertion in Tokyo earlier this year that the U.S. "welcomes the rise of a confident, peaceful, and prosperous China…[and wants] China as a global partner, but one that is "able and willing to match its growing capabilities to its international responsibilities." China's rise is a "logical evolution," and is not a zero-sum game for the United States, he maintained. As for the litany of differences between the two countries, including human rights, nonproliferation, Taiwan, and some aspects of trade and finance, Hill emphasized that they should be dealt with in a way that advances U.S. values and national interests.

Hill appraised China's economic emergence as largely positive, but warned that China's growing needs for energy and other resources "could make China an obstacle to U.S. and international efforts to enforce norms of acceptable behavior." In addition, he cited China's willingness to invest in and trade with "problem states" such as Iran, Sudan, and Burma as exerting the "biggest impact" on U.S. national interests. In closing, Hill said that the U.S. must work with China, and with our partners around the world, "to ensure that its emergence takes place within strong regional and global security, economic and political arrangements."

President Bush continued to engage with President Hu by phone this quarter to cultivate a good working relationship with China's leader and encourage him to adopt policies that mesh more closely with American interests. To make up for Bush's decision to not meet with any foreign leaders apart from host Russian President Vladimir Putin at the commemoration of the 60th anniversary of the allies' victory over Nazi Germany – and to avoid a loss of face for Hu – Bush placed a phone call to Hu on the eve of his departure for Moscow. The call was deliberately highlighted in the White House press briefing that day to underscore the importance that Bush attaches to Sino-U.S. relations. North Korea topped the agenda, with the two leaders reiterating their commitment to work together toward a nuclear-free peninsula, but not agreeing on specific ways to achieve that goal. Bilateral trade and economic issues were also discussed, and Bush again urged Hu to move toward a freely floating currency. After listening to a short briefing by Hu on the historic visits to the mainland by Taiwan's opposition leaders Lien Chan and James

Soong, Bush urged China’s leader to continue working on ways to reach out to President Chen as the duly elected leader of Taiwan.

**Economic diplomacy in high gear**

Bilateral economic issues sharpened this quarter, as the administration sought to assuage an increasingly restive Congress and interest groups about a slew of issues ranging from the U.S. trade deficit, textile quotas, currency issues, intellectual property rights, and as the quarter ended, energy issues. Perhaps E. Anthony Wayne**,** assistant secretary for economic and business affairs, best summed up the complexity of the economic relationship when he said in a June 6 speech to the Executives’ Club of Chicago that he and his staff spend most of their time dealing with “fears, legitimate complaints, and misperceptions” about trade issues with China. China’s rise as a global economic power is not in dispute, he said, “but people's feelings about it run from admiration to uneasiness and even hostility.”

Events throughout the quarter reflected the deepening challenge of distinguishing fact from fiction in how China’s economic rise affects American interests. Chinese officials and media, meanwhile, pointed toward separating “politics from economics,” and the importance of negotiating trouble spots in the interest of overall bilateral relations. “Don’t be afraid of floating clouds covering up the eyes,” intoned a *People’s Daily Online* editorial, arguing that “it is essential to handle economic and trade frictions…from a strategic height.”

While many analysts have observed an increasingly harsher U.S. stance toward China this quarter, speeches and actions by officials from both countries suggest an acute awareness of the strategic implications of letting rhetoric derail cooperation needed to solve problems. There are serious disputes across a range of issues, but a technocratic, pragmatic approach has tended to prevail. Officials must also handle domestic political pressure to more actively defend interests.

**Currency issues**

Domestic political pressure was most evident in the question of the yuan’s peg to the dollar, and the quarter began with an April 7 nonbinding vote in the U.S. Senate to raise U.S. tariffs on imports from China by 27.5 percent unless it revalues its currency within six months (the figure is mid-point in the 15 to 40 percent range some economists say China’s currency is undervalued.) The vote on the “China Free Trade Act,” cosponsored by Senators Graham and Schumer passed by a two-thirds majority, revealing a surprising level of angst in Congress with China’s undervalued currency, viewed to be the cause of a host of U.S. economic problems, from a surging trade deficit to the loss of manufacturing jobs. “This amendment says to the Chinese, enough already,” Schumer said April 6. “It says to the Chinese, this is a shot across your bow. Reform – because, if you don't, there are going to be dramatic consequences throughout the world, in our country, and in your country as well.”

Chinese officials were not pleased with this rhetoric, and blamed it for sparking speculation frenzy on the yuan that would only further delay reform. Speaking on the sidelines of an Asian Development Bank meeting in Istanbul May 6, Chinese Finance Minister Jin Renqing said, “We will actively and prudently push forward this reform, but I believe under the current situation that speculation on the renminbi exchange rate is very hot, that pushing forward this reform is very difficult.” On May 12, People’s Bank of China Vice Governor Wu Xiaoling complained that external pressure – specifically pending legislation in the U.S. Congress – was prompting a flood of hot money into Chinese assets, especially property. “Originally there was a pretty good environment” for reform of the exchange rate, Wu said. “It is not proper to say that the reform direction of the Chinese government is being carried out under pressures from outside.” This comment came a day after billions of dollars of speculative money was let loose on foreign exchange markets worldwide following an erroneous report that the government would revalue the currency by May 18. On June 23, Chinese Premier Wen Jiabao argued in a keynote speech at the Sixth ASEM Finance Minister’s meeting in Tianjin that it is China’s right to choose its own currency regime “suitable to its own national conditions.”

Meanwhile, on May 26, the U.S. Treasury released its “Report to Congress on International Economic and Exchange Rate Policies,” which addressed a range of problems with current global imbalances, including China’s fixed peg. The report concluded that while China’s currency value is highly distortionary, it does not meet the “technical qualifications” of a currency manipulator. Testifying before the Senate Committee on Banking, Housing, and Urban Affairs, Treasury Secretary John Snow added that this should not be interpreted as acquiescence to the status quo; “If current trends continue without substantial alteration,” he warned, “China’s policies will likely meet the statute’s technical requirements for designation” as currency manipulation. When committee members – including Schumer – grilled Snow on what this meant, Snow reluctantly opined that China would need to make a “significant” move and that it would need to do so before the next exchange rate report is due to Congress in mid-October. Snow reiterated his position in June 23 testimony to the Senate Finance Committee, saying “I believe that the risks associated with delaying reform far outweigh any concerns with immediate action,” he said. “The current system poses a risk to China’s economy, its trading partners, and global economic growth.”

In truth, while Chinese officials have repeatedly said that they intend to eventually adopt a flexible currency, there is no consensus among officials or economists on how to get there from here. Some argue China should wait several years until its financial system is strengthened, others argue that the opportune time has already passed. “The economic and social price of yuan revaluation is climbing higher by the day,” senior economist Liang Hong wrote in the *China Economic Times* in June. “As more hot money flows into the country and the trade surplus grows worse, the task at hand becomes more complicated,” he asserted. An Asian Development Bank study released June 1 concluded that a 10 percent revaluation would “stabilize China’s overheating economy by suppressing inflationary pressure, and reducing investment and GDP growth. On the other hand,” the report went on, “a 20 percent appreciation nearly halves GDP growth, risking a hard landing for China.” The impact on the U.S. trade deficit would “hardly make a dent," the report adds, because a reduction of imports from China would be replaced with an increase of imports from other countries. Federal Reserve Chairman Alan Greenspan agreed in testimony before the U.S. Senate Finance Committee on May 23, saying that only a higher savings rate in the U.S. would alter the trade deficit picture. Both the IMF and World Bank echoed this view, arguing in separate opinions that China's exchange rate was not the sole problem of global imbalances and asserting Beijing's legitimate right to set monetary policy.

As the quarter ended, the Bush team was able to buy some more time from Congressional action, as Secretary Snow and Chairman Greenspan emerged from side meetings with Senators Schumer, Graham, and other key congressional leaders June 30 with an agreement to postpone a scheduled July 27 vote until the fall. No doubt Snow's new special envoy to China, Olin L. Wethington – appointed May 19 and taking over the portfolio of Ambassador Mark Speltz – has his work cut out for him. Wethington has a long history of financial diplomacy, including currency talks with Japan and Korea and most recently assisting in Iraq reconstruction.

**Textile tariffs**

On two occasions in May, Secretary of Commerce Carlos Gutierrez announced that the Committee for the Implementation of Textile Agreements (CITA) had concluded that "considerable market disruption" existed for a total of seven textile products, and imposed a 7.5 percent quota above the moving average of the 12 months prior to when the complaint was made late last year. (CITA said that three of the seven were self-initiated actions, and four were brought by the National Association of Manufacturers, among other groups; CITA has yet to rule on eight more cases currently pending). If a satisfactory solution cannot be reached within 90 days, the quota will remain in place through the end of 2005.

China takes the textiles issue very seriously and argues it is World Trade Organization (WTO) compliant. On May 30, Commerce Minister Bo Xilai conducted a press conference with Chinese and international media in which he argued that the U.S. action is based on "insufficient evidentiary grounds," and argued that the specific conditions laid out in Paragraph 242 of China's WTO succession agreement have not been met. He defended China's textile trade as a "take to compensate for other areas of gives in market opening," and while he agreed that there has been an increase in China's textile exports to the U.S. (and EU) since January 1, the fault lies with the developed countries that failed to phase out textile quotas, keeping 90 percent of them until "the last minute" – the bulk of these in products for which developing countries have greater advantage. The textile industry employs 19 million people in China, Bo pointed out, many in the low-income population, and the Chinese government has a responsibility to protect the legitimate rights of Chinese industries. Bo further explained that the May 20 action to impose export duties on 74 textile products was not in reaction to the U.S. move, but had been under study for some time. China will continue to exclude from that list textile products subject to U.S. (or EU) restrictions, he added. In concluding, he urged the EU and the U.S. to spend more energy on the development of high-technology and on Airbus and Boeing, “rather than quarrel with us on socks and trousers.” (This may have been a reminder that China Southern Airlines had just announced on May 12 it would buy 45 Boeing planes in a deal worth about $3 billion.)

The issue was a focal point of the June 2-4 visit to Beijing by Commerce Secretary Gutierrez, with USTR Rob Portman joining him June 4. The two met with Chinese Vice Premier Wu Yi and Commerce Minister Bo. In addition to negotiations on textile quotas, intellectual property rights (see below), and currency issues, they were preparing for the next annual meeting of the Joint Commission on Commerce and Trade (JCCT) in July 2005 in Beijing. The last 2004 JCCT meeting successfully resolved a whole host of issues, both sides agree, so officials have only their own success to improve upon.

**Intellectual property rights (IPR)**

China’s infringement of IPR provoked harsh criticism from U.S. officials this quarter that Beijing could not ignore. Echoing a phrase coined by former USTR Bob Zoellick – “If we make it, they can fake it” – Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill pointed to IPR as a priority in a June 7 hearing before the Subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relations Committee. The issue is far from confined to knock-off CDs and DVDs; Hill listed “automobile brakes, even entire passenger cars, electrical switches, medicines, marine pumps, processed foods, and other items that create health and safety risks in China and abroad because of poor product quality regulation.” For U.S. businesses, IPR infringement is “really the solution to the bigger problem – the trade deficit,” argued Charles Martin, president of the American Chamber of Commerce in China, because fake goods crowd out imports of legitimate products.

Chinese officials do seem to grasp the enormity of the problem. On April 21, the Information Office of the State Council issued a white paper entitled “New Progress in China’s Protection of Intellectual Property Rights,” the first IPR white paper since 1994. Citing a number of areas of progress, the paper also pledges that China will “enhance its cooperation with various countries and international organizations with a more active, open attitude.” In addition, more than 20 government agencies collaborated in a “public information week” that sought to educate businesses, students, and broader society on the importance of IPR. U.S. officials acknowledged progress is being made, but nevertheless the USTR placed China on the Priority Watch List on April 29 after concluding its “Out of Cycle” review of China’s IPR regime – a step that is sometimes a precursor to applying sanctions. This issue will definitely be addressed at the July JCCT meeting; U.S. officials are seeking a range of specific measures such as increased criminal penalties and more budget outlays for enforcement at the local level.

**Energy issues**

Conflicting competitive and cooperation pressures on bilateral energy issues were revealed late in the quarter, kicked off by the June 23 takeover bid by China National Offshore Oil Corp. Ltd. (CNOOC) to acquire Unocal Corp., putting back into play

Chevron's $16.7 billion offer that it thought was locked up. On June 30, Congressional suspicions about CNOOC's $18.5 billion cash bid were expressed in a House vote of 311-92 to ban Treasury from using any funds to "recommend approval" of the sale, and a second nonbinding resolution, adopted 398-15, that expressed concern the sale "would threaten to impair" U.S. national security. (Earlier in the week, the House had also voted overwhelmingly to bar the Export-Import Bank from proceeding with a $5 billion credit package to support a bid by Westinghouse Electric Co., a unit of British Nuclear Fuels PLC, to build nuclear power plants in China.) Ultimately, the Committee on Foreign Investment in the U.S. (CFIUS), chaired by Treasury Secretary Snow, has responsibility for deciding the national security question, and it has rarely blocked a sale of a domestic company to a foreign one. In this case, many energy industry analysts argue that because two-thirds of Unocal's assets are in Asia, and due to its long-term supply contracts to Thailand and Indonesia, for example, the acquisition does not pose a challenge to U.S. interests. Unocal does provide a small percentage of the U.S. strategic petroleum reserve from its deep-water wells in Mexico, but CNOOC officials have pledged to either sell these or put the assets in a trust. Many business analysts argue that the real significance of the CNOOC bid is China's determination to build world-class companies that can compete internationally, and that it recognizes it needs foreign help to do so.

For others, however, Beijing's offer provided further evidence of a Chinese plan to translate its immense trade surpluses into strategic advantage that would redound to the detriment of the U.S. The takeover bid comes on the heels of China's acquisition of oil and natural gas fields in Kazakhstan, Venezuela, Sudan, Iran, Iraq, Peru, Azerbaijan, and Indonesia. Many of those countries are considered unsavory or even rogue states by Washington and China's business dealings with them have aroused suspicions that Beijing's economic inroads will not only provide China with secure access to energy, but also new sources of political leverage. The CNOOC bid also brought into relief U.S. energy vulnerability. In the House of Representatives, Richard W. Pombo (R-CA), chairman of the House Committee on Resources, who spearheaded the House bill and whose district includes Unocal's headquarters, said "This should be a wake-up call for America to get as serious about energy as China appears to be." The Unocal board meets Aug. 10 to vote on the CNOOC and Chevron bids.

On the cooperation front – ironically, on the same day as the House voted on June 30 – U.S. Secretary of Energy Samuel Bodman announced in Beijing the establishment of the first DOE office in China to support cooperative efforts on energy and nuclear security issues, and back in Washington, the first U.S.-China Energy Policy Dialogue was convened. "The United States and China have a constructive relationship on a variety of issues, including energy security and nuclear security," Secretary Bodman said. "Through the U.S.-China Energy Policy Dialogue, and with on-site assistance from the new DOE office, we can enhance our cooperation to promote energy efficiency, diversify our energy supplies, expand the use of clean energy technologies, as well as continue our mutual efforts to increase nuclear security in both our nations."

**Are U.S.-China ties headed for retrogression?**

It is premature to predict a downward slide in U.S.-China relations, but current trends are on balance more negative than positive. Opportunities will be presented in the second half of the year that, if actively seized, could put the relationship on a more positive trajectory. Both countries are looking to the July meeting of the Joint Commission on Commerce and Trade to make progress in the economic realm. An important venue for discussions of geo-strategic issues will be the Global Dialogue that will be launched in late July, led by Deputy Secretary of State Robert Zoellick and Executive Vice Foreign Minister Dai Bingguo. The list of thorny international issues on which the U.S. and China are on opposing sides or are partially at odds keeps growing: UN reform, U.S. presence in Iraq, Iran's nuclear programs, Uzbekistan's crackdown, East Asian regionalism, the Proliferation Security Initiative, genocide in Sudan, North Korea's nuclear programs, the U.S.-Japan alliance, Taiwan, and the militarization of space.

Summits and other high-level meetings will also provide a chance to inject new momentum into the bilateral relationship. Hu Jintao will make his first visit to the United States as China's president in September. Bush will stop in Beijing in November when he travels to Asia to attend the Asia Pacific Economic Cooperation summit. High-level military exchanges are also on the agenda, including a visit by Secretary Rumsfeld to China and Central Military Commission Vice Chairman Guo Boxiong to the U.S.

## Chronology of U.S.-China Relations
### April-June, 2005 [1]

**April 4, 2005:** U.S. Committee for the Implementation of Textile Agreements, chaired by the Department of Commerce, initiates safeguard proceedings on imports of Chinese textile and apparel products to determine whether quotas should be re-imposed.

**April 6, 2005:** U.S. textile and clothing industry asks the government to re-impose quotas on 14 categories of clothing to protect U.S. manufacturers after the Bush administration brought its own cases on different clothing products.

**April 8, 2005:** State Department announces that the U.S. and China agree for the first time to hold regular, senior-level talks on a wide range of political and economic issues.

**April 13, 2005:** China's State Council issues a white paper on China's human rights progress in 2004 in response to criticism from U.S. human rights groups and outlines "significant progress" in 2004.

[1] Compiled by Cheng Sijin, CSIS intern and Ph.D candidate, Boston University.

**April 13, 2005:** U.S. and China hold the inaugural U.S.-China Global Issues Forum in Washington, D.C. The sessions focus on clean energy and sustainable development, humanitarian assistance, poverty alleviation, development financing, law enforcement, and public health.

**April 14, 2005:** Congressional policy advisors and academics testify before the U.S.-China Economic and Security Review Commission that Chinese protests against Japan raise concerns that China could one day unleash popular wrath on the U.S. Susan O'Sullivan, senior adviser for Asia in the State Department's Bureau of Democracy, Human Rights, and Labor, cites lagging political reform and repression of human rights as systematic problems.

**April 14, 2005:** Under Secretary of State R. Nicholas Burns testifies before the House Committee on International Relations and the House Armed Services Committee that the U.S. strongly opposes a lifting of the EU arms embargo on China as it threatens peace and security in the region and would send the wrong signal. Assistant Secretary of Defense Peter Rodman and Acting Undersecretary of Commerce Peter Lichtenbaum also testify.

**April 15, 2005:** During an appearance before the American Society of Newspaper editors, President George Bush calls for China to float its currency, welcome all religions, cooperate in the war on terror, and keep peace with Taiwan. He also attributed the surge in oil prices partly to China's growing demand for energy.

**April 18, 2005:** Treasury Secretary John Snow says after a G7 meeting of finance ministers that China has had long enough to prepare its financial system and is ready now to adopt a more flexible exchange rate.

**April 19, 2005:** As a result of a joint U.S.-China investigation to enforce intellectual property laws, two Americans are sentenced in Shanghai for selling pirated DVDs on the Internet.

**April 19, 2005:** Secretary of the Navy Gordon England, nominated as the new deputy defense secretary, says during his confirmation hearing that the U.S. must be prepared to meet any challenge from China.

**April 21, 2005:** Federal Reserve Chairman Alan Greenspan says at a Senate Budget Committee hearing that China's fixed exchange rate is taking a toll on the Chinese economy and must be eased sooner rather than later.

**April 21, 2005:** Rep. Robert Portman, nominated as the next U.S. trade representative, vows during his confirmation hearing to order "a top-to-bottom review" of U.S. trade relations with China if confirmed.

**April 26, 2005:** Senate passes a bill calling for the administration to address the lack of intellectual property protection in China and Russia and ensure that action is taken against any country in violation of its WTO commitments.

**April 26, 2005:** Assistant Secretary of State Christopher Hill arrives in Beijing from Seoul and meets with Chinese vice foreign ministers Dai Bingguo, Yang Jiechi, and Wu Dawei to discuss bilateral relations, the Korean Peninsula nuclear crisis, and other issues.

**April 27, 2005:** Chinese Customs puts forward a container security cooperation proposal with the U.S. to guard against terrorists hiding arms of massdestruction in containers. The two countries will post customs officers in each other's ports.

**April 29, 2005:** Deputy Defense Secretary Paul Wolfowitz meets at the Pentagon with Lt. Gen. Xiong Guangkai as part of annual defense policy talks. The Chinese military continues to object to a proposal to set up a hot line between the Pentagon and its Beijing counterpart.

**April 29, 2005:** U.S. trade representative's office releases its special "Out-of-Cycle Review," or OCR, of the IPR situation in China, concluding that the efforts to date, while serious, have not significantly reduced IPR crime across China.

**May 5, 2005:** In a telephone conversation, Chinese President Hu Jintao and President Bush discuss North Korea, trade and economic ties, and Taiwan.

**May 9, 2005:** Treasury Department and Chinese central bank officials hold talks on financial issues, including currency flexibility, and will hold more talks this summer.

**May 13, 2005:** Chinese Vice Premier Wu Yi tells U.S. Ambassador to China Clark Randt that China hopes to resolve trade disputes through consultation and cautions against "mixing economic and trade problems with politics."

**May 13, 2005:** Chinese FM Li Zhaoxing talks with Secretary of State Rice on the phone on exchanging presidential visits within the year and other issues.

**May 13, 2005:** Department of Commerce announces the imposition of temporary quotas on three categories of clothing from China after deciding that a surge in imports of those products from China is disrupting the U.S. market.

**May 16, 2005:** U.S. Chamber of Commerce and American Chamber of Commerce-China announce plans to cooperate in monitoring China's enforcement of intellectual property rights laws.

**May 17, 2005:** Department of Treasury says in its *Report to Congress on International Economic and Exchange Rate Policies* that China's exchange rate is a substantial distortion to world markets and a source of large risk to the Chinese economy, but falls short of designating China for currency manipulation.

**May 18, 2005:** Department of Commerce adds four more categories of textile and apparel products from China to the list subject to temporary quotas.

**May 19, 2005:** China's Commerce Minister Bo Xilai calls quotas "unwise" and says that China will not adopt additional measures to curb its textile exports.

**May 19, 2005:** Treasury Secretary Snow appoints Olin Wethington special envoy on China, responsible for issues related to exchange rate and financial market reform.

**May 20, 2005:** China announces new tariffs on 74 types of goods, an increase of up to 400 percent, to begin on June 1.

**May 25, 2005:** China threatens to renege on a promise to impose tariffs on textile products if the same items are subject to quotas overseas.

**May 26, 2005:** Deputy Assistant Secretary of Defense Richard Lawless warns the House International Relations Committee on the dangers of China's military buildup and its potential impact on the security of Taiwan. Assistant Secretary Hill also testifies.

**May 26, 2005:** Treasury Secretary Snow defends his department's report that stops short of branding China a currency manipulator in front of the Senate Banking Committee. He expresses confidence in U.S. policies and expects China to revalue the *yuan* before October.

**May 27, 2005:** Office of the U.S. Trade Representative says that a Section 301 action is not appropriate or productive way to achieve the goal of changing China's currency regime.

**May 30, 2005:** Chinese Minister of Commerce Bo Xilai says that China is willing to handle the textile trade issues through consultations. He notes that the Chinese government hopes to maintain friendly economic cooperation with the U.S. and EU.

**May 30, 2005:** Vice President Dick Cheney urges China to do more to revive the stalled Six-Party Talks on *CNN*'s "Larry King Live."

**June 1, 2005:** China scraps export tariffs on 81 categories of clothing, in response to the EU's decision to impose quotas as well as U.S. decision to re-impose restrictions on seven kinds of Chinese textile and clothing imports.

**June 1, 2005:** Secretary of Commerce Carlos Gutierrez in Beijing urges China to speed progress on bilateral trade issues or risk an outbreak of protectionism that will hurt both countries' economies and stresses the protection of intellectual property rights.

**June 2, 2005:** Secretary Rice and FM Li hold a phone conversation and agree to enhance cooperation between the two countries in major global and regional affairs.

**June 3, 2005:** U.S.-China Business Council, in its 2005 scorecard on China's WTO commitments, finds that, despite demonstrable progress, many Chinese trade policies still violate WTO rules.

**June 4, 2005:** Defense Secretary Donald Rumsfeld says in Singapore that China's defense expenditures are much higher than published figures and its ability to project power is growing.

**June 4, 2005:** On the 16th Anniversary of the Tiananmen Square protests, the U.S. government issues a statement calling on the Chinese government to account for its actions, reexamine the event, and allow its citizens to assemble, speak, and worship freely.

**June 7, 2005:** Assistant Secretary Hill testifies before the Senate Foreign Relations Committee that China's growing influence is a result of its economic success and not a zero-sum game for the U.S.

**June 7, 2005:** In a meeting with Sheng Huaren, vice chairman and secretary general of the Standing Committee of China's National People's Congress, Bush says that he is looking forward to meeting with Hu later this year.

**June 8, 2005:** U.S. and Chinese parliamentary groups hold second work meeting since 2003 and exchange opinions on Sino-U.S. relations, Taiwan, parliamentary contact, economic and trade issues, and international and regional situations.

**June 10, 2005:** Chinese Vice FM Yang Jiechi holds talks with Deputy Secretary of State Robert Zoellick and other senior U.S. officials.

**June 10-17, 2005:** China and U.S. inter-parliamentary exchange groups hold the sixth round of regular meetings to discuss China-U.S. relations, Taiwan, parliamentary exchanges, trade issues, China's peaceful development, and the DPRK nuclear issue.

**June 13, 2005:** Secretary Rumsfeld, in an interview with *BBC News*, argues that China's communist system will cause tension with the fast growing economy in the future and expects a loosening of the political system.

**June 16, 2005:** China announces temporary anti-dumping measures against imported Furan phenol, a chemical raw material, from Japan, the U.S., and the EU.

**June 18, 2005:** China test-fires a new long-range, submarine-launched ballistic missile, believed to be the *Ju Lang-2,* according to reports by the Japanese government.

**June 20, 2005:** Haier, a Chinese appliance maker, joins two private equity firms in an offer to acquire all Maytag's outstanding stock for $16 a share.

**June 22, 2005:** CNOOC, China's third-largest oil producer, offers to buy Unocal, a U.S. oil and gas company, for $18.5 billion in cash, topping the $16.6 billion Chevron bid.

**June 23, 2005:** Acting Under Secretary of Commerce for Industry and Security Peter Lichtenbaum testifies before a U.S.-China Economic and Security Review Commission hearing that "China poses particular challenges for U.S. dual-use export control policy, because there are immense potential benefits from expanding trade, but there are also serious security concerns."

**June 23, 2005:** Federal Chairman Greenspan warns members of the Senate Finance Committee that proposed tariffs against Chinese goods and other forms of protectionism would significantly lower U.S. living standards and would not save U.S. jobs.

**June 23, 2005:** Kelly Ryan, deputy assistant secretary of state for the Bureau of Population, Refugees and Migration, urges the executive board of the UN Population to end its family planning program in China until Beijing stops using coercion, forced abortions, and punishment to enforce its one-child policy.

**June 30, 2005:** Secretary of Energy Samuel Bodman announces establishment of a Department of Energy office in Beijing to support cooperative efforts with China on energy and nuclear security issues. On the same day, the first meeting of the U.S.-China Energy Policy Dialogue was held in Washington.

**June 30, 2005:** Treasury Secretary Snow announces a compromise with authors of the Schuman/Grassley bill to postpone the July 27 vote on imposing a 27 percent tariff on Chinese goods until the fall.

**June 30, 2005:** House International Relations Committee unanimously passes The East Asia Security Act of 2005, a bill that would impose a wide array of sanctions against countries and firms that sell arms to Beijing.

**June 30, 2005:** House of Representatives votes 333-92 to block the Bush administration from approving CNOOC from acquiring U.S. oil and gas producer Unocal Corp. In a separate nonbinding resolution, the House votes 398-15 in favor of an immediate review of the possible takeover. The resolution states that a CNOOC takeover of Unocal "would threaten to impair the national security of the United States."