



U.S.-China Relations:
China Signals Irritation with U.S. Policy

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China's refusal to allow the *USS Kitty Hawk* to make a scheduled visit in Hong Kong for Thanksgiving refocused attention on bilateral differences over Taiwan and Tibet. It also raised questions about civilian-military coordination in China and highlighted the mistrust between U.S. and Chinese militaries. A series of agreements were reached to promote better relations between the U.S. and Chinese militaries during a visit to China by Defense Secretary Robert Gates and a subsequent round of the Defense Consultative Talks. Economic and trade issues were at the top of the bilateral agenda as the Joint Commission on Commerce and Trade and Strategic Economic Dialogue convened and produced some successes, although not on the niggling issue of China's currency valuation.

***USS Kitty Hawk* denied entry to Hong Kong**

The premise that U.S.-Chinese relations are mainly constructive and cooperative, despite differences on a broad number of specific issues, was called into question this quarter. The first public manifestation of tension occurred Nov. 21 when the aircraft carrier *USS Kitty Hawk*, home ported in Yokosuka, Japan, was refused permission to enter Hong Kong, where its crewmembers had planned to spend the Thanksgiving holiday. In anticipation of the carrier visit, which has been an annual Thanksgiving event in recent years, thousands of family members had flown in from U.S., Japan, and the Philippines to meet their loved ones.

When U.S. officials learned that the *USS Kitty Hawk* had been barred from entering Hong Kong, they immediately launched an effort to persuade the Chinese government to reverse its decision, enlisting Chinese Ambassador Zhou Wenzhong's help to appeal to the Chinese leadership. At the daily press conference on Nov. 22, China's foreign ministry spokesman announced the decision to permit the carrier to dock in Hong Kong "out of humanitarian considerations," but did not explain why the ship had originally been denied entry. By then, however, the carrier and its flotilla of five support ships had steamed two hours toward Yokosuka and opted not to turn around.

Commander of U.S. Pacific Command Adm. Timothy Keating described the incident as "perplexing." "It is not, in our view, conduct that is indicative of a country who understands its obligations of a responsible nation," he said in a press teleconference.

Apparently, China had informed the U.S. of denials of permission for a total of nine naval vessels and one air force airplane permission to enter Hong Kong. One incident in particular—the refusal of a request by two minesweepers seeking refuge from a storm—was especially troubling since it ran counter to traditional maritime courtesies. The ships were compelled to refuel at sea, at potentially great risk. The U.S. lodged a formal protest with China’s Ministry of Defense in regard to the series of incidents.

To avoid a storm and conserve fuel and shorten the length of time at sea, the *USS Kitty Hawk* and its flotilla passed through the Taiwan Strait on their journey back to Japan—not an unprecedented action, since the U.S. considers the strait an international waterway and regularly sails through it, although the transit of a carrier battle group is rare. Beijing was privately informed that the decision to sail through the Taiwan Strait was not intended as a political signal of U.S. dissatisfaction.

China was nevertheless miffed. A signed article in the Chinese-owned Hong Kong newspaper *Ta Kung Pao* maintained that following the reversal of the Chinese government’s decision, the *Kitty Hawk* refused to turn around “to express its displeasure.” The author added that “The traditionally megalomaniac Americans, feeling that they had been tricked, chose to demonstrate their might by returning to Japan en route the Taiwan Strait, instead of the waters east of Taiwan as they normally would.”

In a previously planned meeting with Chinese Foreign Minister Yang Jiechi, who was in the U.S. attending the Annapolis Middle East Conference, President Bush raised the issue of the aborted port call and, according to the White House spokeswoman, was assured that it was a misunderstanding. However, the following day, China’s foreign ministry spokesman denied that Yang had termed the episode a misunderstanding. Was there a problem in communication between the U.S. and China? What signal was Beijing trying to send?

Some clarity emerged on Nov. 29, when China’s foreign ministry spokesman declared that Sino-American relations had been “disturbed and impaired by the erroneous actions taken by the United States.” The Chinese official cited two specific grievances: 1) President Bush’s meeting with the Dalai Lama the previous month and the awarding of the U.S. Congressional Gold Medal to the Dalai Lama; and 2) U.S. arms sales to Taiwan, which send wrong signals to Taiwan and contravene U.S. commitments in the three Sino-U.S. Joint Communiqués.

The PRC-owned Hong Kong news service *Zhongguo Tongxun She* – which occasionally carries reporting deemed too sensitive for PRC media – carried an analysis of the incident on the same day. The article, entitled, “Kitty Hawk Incident Shows China, United States Should Pay Close Attention to Each Other’s Concerns,” stated:

The Chinese side has repeatedly made clear that the Taiwan issue involves China’s core interests and that Dalai is also a political exile engaged in separatist activities. Despite turning a deaf ear to the Chinese side’s concerns, the United States was asking for a warm welcome from China as if nothing happened; this undoubtedly was beyond reason. As its national strength keeps

on increasing, China all the more needs to get the respect of relevant countries with regard to some major interests such as Taiwan. While a factor of misunderstanding might be involved in this *Kitty Hawk* incident, it cannot be ruled out that the Chinese side, by dealing with it with rare “hesitation,” was implicitly warning the U.S. side against ignoring China's feeling.

Beijing was unquestionably irked about the exceptional reception provided for the Dalai Lama during his visit to Washington D.C. and in retaliation canceled the scheduled visit to the U.S. in late October by Wu Bangguo, the titular No. 2 in the Communist Party and chairman of the National People's Congress. U.S. arms sales to Taiwan—even weapons that had been approved in April 2001—were far more difficult for the Chinese leadership to endure without signaling its displeasure in a way that would seize Washington's attention. The proposal of Taiwan's ruling party, the Democratic Progressive Party (DPP), to hold a referendum asking the people of Taiwan if they support joining the UN under the name Taiwan, has been labeled by Beijing as a referendum on reunification vs. independence in disguise. The referendum is scheduled to be held along with the Taiwan presidential elections on March 22, 2008 and will likely boost voter turnout and possibly increase the number of votes cast for the DPP presidential candidate, Hsieh Chang-ting.

President Hu Jintao told President Bush when they met in Sydney on the sidelines of the APEC meeting that the run-up to the Taiwan elections was a “period of high danger” and urged U.S.-Chinese cooperation to prevent Taiwan from achieving *de jure* independence. Privately, Chinese experts maintained that at home, Hu was under considerable pressure to abandon reliance on the U.S. to keep Taiwan's pro-independence forces in check and instead take his own tough measures, including a limited military strike against select targets on the island, to defend Chinese sovereignty and territorial integrity.

At first, China had quietly demonstrated its dissatisfaction with U.S. arms sales to Taiwan. After the U.S. announced the sale of 12 surplus *Orion P3-C* maritime patrol craft and 144 *SM-2 Block 3A* Standard anti-aircraft missiles totaling \$2.2 billion, the PLA cancelled all bilateral military exchanges with the U.S. military for the month of October. To China's chagrin, another weapons sale was announced on Nov.13—an upgrade to Taiwan's *Patriot 2* missile defense systems, valued at nearly \$1 billion. Both weapons sales were part of the package that the Bush administration had approved for sale to Taiwan in April 2001, but had been delayed by the failure of Taiwan's legislature to approve funding. The second announcement came just one week after Defense Secretary Gates' visit to China in which he had been warned about the dangerous situation prevailing in the Taiwan Strait and was urged to cease U.S. military ties and arms sales to Taiwan. Gates had not mentioned that notification to Congress of yet another arms sale to Taiwan was imminent, which likely infuriated the PLA.

In a phone call with President Bush on Dec. 6, President Hu told his U.S. counterpart, “How to deal with the Taiwan issue is the key to stable and healthy U.S.-Chinese relations.” He further urged, “China hopes that America will make it clear that it opposes the Taiwanese authority's recent push for a referendum on UN membership.” According

to Chinese researchers, whereas all previous phone calls between U.S. and Chinese presidents were initiated by the U.S. side, this call was placed by President Hu.

Recognizing that the Chinese did not likely anticipate the firestorm of U.S. reaction to their decision to deny the *USS Kitty Hawk* and other U.S. ships' access to Hong Kong's port and seeking to defuse tensions over the episode, the White House spokeswoman Dana Perino declared publicly the administration's willingness to move beyond the dispute. "I think the president believes we have good relations with China. We work cooperatively with China on so many different issues. This is one small incident. And in the big picture, in the big scheme of things, we have very good relations," Perino stated at a news briefing.

To be sure, putting the episode behind both countries was necessary. But lessons should be drawn from it, nonetheless. First, coordination between the Chinese military and the civilian side of the government must be strengthened. Prior to taking decisions, foreign reactions must be correctly forecast and taken into account. Second, strategic trust in U.S.-China relations, and especially between the U.S. and Chinese militaries, is sorely lacking. Both countries should take steps to offer strategic reassurances to remedy the trust deficit.

Military relations progress with Gates visit to China and the 9th DCT

Despite China's pique over the Sept. 12 notification to the U.S. Congress of arms sales to Taiwan, Beijing agreed to accept a visit by Defense Secretary Gates in the first week in November, his first since assuming the helm at the Pentagon. Gates spent three days in Beijing, mostly in meetings with Chinese leaders and senior military officials, and then proceeded to Seoul and Tokyo, reversing the past practice of traveling to Japan and South Korea before China. The visit yielded progress toward the establishment of a telephone link between the two defense establishments; an agreement to hold additional and more complex joint naval exercises; a plan to increase exchanges between military education institutions and exchanges of mid-level and junior-level officers; and a pledge by China to open its archives that may contain information on U.S. soldiers still listed as missing from the Korean War.

As Gates' discussions with his Chinese counterparts got underway, the PRC-owned Hong Kong news service *Zhongguo Tongxun She* underscored that the two countries "urgently need to strengthen mutual trust and cooperation between their defense ministries." Gates' visit, which followed the 17th CCP Party Congress and the change in China's military leadership, is "no doubt an important stride forward" in promoting U.S.-Chinese defense ties, the article noted.

Issues raised by Gates with the Chinese included the January 2007 anti-satellite weapon test conducted by China, Iran's nuclear program, the lack of progress on a bilateral dialogue on strategic nuclear issues that was agreed upon during President Hu's April 2006 visit to the U.S., and the need for greater transparency by China to allay international concerns about its military modernization. On the Chinese side, concerns

about Taiwan were paramount and were raised by every Chinese official with whom Gates met, including President Hu, Defense Minister Cao Gangchuan, Central Military Commission Vice Chairman Guo Boxiong, CMC Vice Chairman Xu Caihou, and Vice Foreign Minister Dai Bingguo.

Chinese analysts favorably compared Secretary Gates with his predecessor Donald Rumsfeld. In an interview posted on the authoritative *People's Daily* website, Shen Dingli, executive vice dean of the Institute of International Affairs at Fudan University, highlighted the differences between the two U.S. secretaries of defense. He maintained that Rumsfeld viewed problems with an ideological Cold War attitude and was willing to “even use unscrupulous tactics to achieve a goal, he showed in the Iraq War and the fight against terrorism.” By contrast, Shen described Gates as “a person who understands cooperation” and “reasoned thinking.” Noting that Gates “has the style of a traditional strategist,” Shen averred that the new U.S. defense secretary is “more traditional and prudent” when dealing with problems.

Validating Shen Dingli's viewpoint, Gates struck a less confrontational tone in his public comments on China's military than Rumsfeld, who had insisted at the June 2005 Shangri-La Dialogue meeting in Singapore that no country is threatening China and therefore questioned the reasoning behind China's military development and missile deployments. During his stopover in Tokyo following his meetings in China, Gates delivered a speech at Sophia University in which he said that did not see China as a “strategic adversary,” but rather as “a competitor in some respects and a partner in others.” He emphasized the need to “strengthen communications to engage the Chinese on all facets of our relationship to build mutual understanding and confidence.” In addition, Gates warned that China's lack of transparency carries the risk of misunderstanding and miscalculation, and “naturally prompts others to take action as a hedge against uncertainty.”

On Dec. 3-4, Chinese and U.S. military officials met in the Pentagon for the ninth deputy-ministerial level Defense Consultative Talks (DCT). The U.S. side was led by Undersecretary of Defense for Policy Eric Edelman and included Assistant Secretary of Defense James Shinn and Deputy Assistant Secretary of Defense David Sedney. The State Department was represented by Deputy Assistant Secretary of State Tom Christensen. Senior Director for Asian Affairs at the National Security Council Dennis Wilder also joined the discussions, marking the first time that an NSC official has participated in the DCT.

China's delegation was headed by Ma Xiaotian, deputy chief of the PLA General Staff. The inclusion of a deputy chief of staff from the Second Artillery Corps was a positive gesture by China in response to a U.S. request to include nuclear-related matters on the agenda. Discussion of nuclear issues was initiated at the previous round of the DCT in June 2006 in Beijing, when an official from the Second Artillery Corps, which has responsibility for China's nuclear and conventional strategic missiles, joined the discussions for the first time.

Both sides exchanged views on Taiwan, Iran's nuclear program, the *USS Kitty Hawk* episode, the North Korea nuclear issue, U.S. and Chinese nuclear doctrine and policy, and followed up on some of the bilateral initiatives that had been agreed upon during Gate's visit to Beijing. *Xinhua*, China's official new agency, reported that officials from the two countries "reached consensus on a wide range of issues." Maj. Gen. Qian Lihua, director of the Foreign Office of the Chinese Ministry of Defense and a member of the Chinese delegation, characterized the talks as both "moderate and constructive" and indicated that there had been "very thorough exchange of ideas on some sensitive issues." The Pentagon's spokesman said the U.S. side "expressed our efforts to move forward with our defense relations with China and to promote a constructive and cooperative relationship."

Briefing reporters following the conclusion of the DCT, Qian outlined three major obstacles to the further development of the bilateral military relationship, which he said had been conveyed to the U.S. side: 1) the upgrading of U.S.-Taiwan military cooperation; 2) the National Defense Authorization Act for Fiscal Year 2000 and the DeLay Amendment Act, which "imposed restrictions on the development of relations between the two armed forces in 12 areas;" and 3) the lack of strategic mutual trust between the two armed forces. Qian said that China hoped the U.S. side would handle these issues "seriously" and take steps to overcome the obstacles to a closer military relationship.

During his stay in Washington, Ma Xiaotian also met separately with Gordon England, deputy secretary of defense; James Cartwright, vice chairman of the U.S. Joint Chiefs of Staff; James F. Jeffrey, assistant to the president and deputy national security advisor; and John D. Negroponte, deputy secretary of state.

Key meetings in economics and trade: JCCT and SED

The 18th Sino-U.S. Joint Commission on Commerce and Trade (JCCT) session was convened in Beijing Dec. 11. The session was co-chaired by U.S. Trade Representative Susan C. Schwab and Commerce Secretary Carlos M. Gutierrez on the U.S. side and by Vice Premier Wu Yi on the Chinese side. A few significant agreements were struck. China agreed to take aim at counterfeit pharmaceutical production by regulating several bulk chemicals that are used to make fake drugs. China also pledged to suspend implementation of a pending regulation requiring new border inspections for medical devices, which U.S. manufacturers claimed would have created a barrier to exporting to China.

Two accords were signed under which China said it would register Chinese producers of food, feed, drugs and medical devices to ensure they meet U.S. safety standards and notify the U.S. when safety problems emerge. A tourism agreement will encourage more Chinese citizens to visit the U.S., and both the U.S. and China agreed to seek new ways to increase U.S. exports to the 14 fastest growing cities in China.

The U.S. was disappointed by China's offer to only accept boneless beef from cattle less than 30 months old and insisted it would continue to seek a lifting of the ban on all U.S. beef exports to China. Progress was made on pork exports, however, with China agreeing to lift export restrictions on six U.S. pork producers.

Some of the commitments China made in 2006 that were not implemented adequately were repeated at this session with promises of follow through. For example, China reiterated its promise to reduce redundant inspections for U.S. medical devices and again agreed to eliminate the excessive capital reserve requirements that foreign telecommunication groups must meet before doing business in China.

China reported on steps it had taken since the previous JCCT in April 2006 to enhance protection of intellectual property rights in China, but no further progress was made in part because Beijing has refused to engage bilaterally with the U.S. on this issue since the Bush administration filed two World Trade Organization dispute settlement cases against China. A fact sheet distributed by the U.S. said the two sides would exchange information on customs seizures of counterfeit goods to focus China's enforcement resources on companies in violation of Chinese laws. In 2006, 81 percent of all goods seized at U.S. borders for intellectual property rights violations were from China.

Treasury Secretary Henry Paulson led a team of six Cabinet officials and agency heads to China for the third meeting of the Strategic Economic Dialogue (SED) on Dec. 12-13. The Chinese team comprised China's Vice Premier Wu Yi and a delegation of 14 Chinese ministers and agency heads. The high-ranking teams met at Grand Epoch City near Beijing. Their discussions centered on five topics: integrity of trade and product safety; balanced economic development, including financial sector reform; energy efficiency and security; environmental sustainability; and bilateral investment.

Food and product safety were highlighted by Paulson on the eve of his departure for SED III as the number one concern in U.S. trade with China. China committed to strengthening requirements for registering and regulating companies that export food and feed products to the U.S. In addition, the U.S. will improve its ability to monitor the safety of food and feed exports coming from China.

In the financial sector, measures were agreed upon that will provide U.S. companies with new opportunities to finance and expand their sales in China. Chinese mutual funds will be able to invest in the U.S. stock market, bringing benefits to both countries. The U.S. and China agreed to a 10-year collaboration to address environmental sustainability, climate change, and energy security focusing on technological innovation and promoting the sustainability of natural resources. Specific steps related to these issues include developing low-sulfur fuels and biofuels, eliminating barriers to trade in environmental goods and services and cooperating on strategic oil stocks. The two parties also reached agreements addressing water quality, timber logging and emissions trading. In the interest of promoting greater transparency, they agreed to have rule-making systems that provide for public participation.

Responding to Chinese concerns in the JCCT and SED, the U.S. agreed to review the technologies that are banned from export to China in an effort to reduce the items on the list and facilitate high-tech and strategic trade. The U.S. also committed to continuing consultations on China's request for achieving market economy status.

Critics charged that nothing was accomplished at SED III that will help U.S. industry compete with Chinese producers. The issue of the valuation of China's currency, which was the driving issue behind the creation of the SED, was not even mentioned in the Joint Fact Sheet. A separately released U.S. Fact Sheet simply noted that the yuan has appreciated 12.2 percent since July 2005 and that the pace of appreciation accelerated from 3.4 percent in 2006 to 6.1 percent in 2007. In the sector that Paulson has pressed most vigorously for China to open up—the banking and financial services industry—China continued to resist permitting foreign investors to hold larger equity shares in Chinese state-run banks. The Chinese merely agreed to conduct studies on foreign equity participation in the banking and securities sectors.

The day after SED III concluded, House Ways and Means Committee Trade Subcommittee Chairman Rep. Sander Levin (D-MI) said he expects the committee to move on legislation next year that could address Chinese intellectual property violations such as counterfeiting and piracy, Beijing's currency manipulation, and offer improvements to the China-specific safeguard provisions of U.S. trade law.

Two weeks prior to SED III, the U.S. won a quiet victory in a disagreement with China over alleged trade subsidies that the U.S. charged China was using to the detriment of U.S. and other foreign companies. The two countries entered into negotiations on the matter after the Bush administration filed a complaint against China last February in the WTO. In late November, U.S. Trade Representative Schwab announced that China had agreed to eliminate WTO-illegal tax breaks for Chinese companies as well as tax and tariff penalties that had penalized foreign companies trying to sell their goods in China. The negotiated settlement suggests that the administration's approach of seeking dispute settlement through the WTO is working. The subsidy case is one of four that the U.S. has filed against China in the past two years.

Wrapping up 2007; heading into 2008

2007 was a year of ups and downs for Sino-U.S. relations. Although Presidents Bush and Hu did not hold a summit meeting in either Washington D.C. or Beijing, they met on the sidelines of the G-8 plus five in June and the APEC Leaders' Meeting in September and held numerous telephone conversations. Two rounds of the Strategic Economic Dialogue and one round of the Senior Dialogue were held, which provided opportunities for both sides to discuss issues in the economic and trade and foreign policy spheres respectively. High-level military visits took place and another round of the Defense Consultative Talks was convened. Progress was made in the Six-Party Talks aimed at denuclearization of the Korean Peninsula and China more assertively pressed the Sudanese government to accept a UN Peacekeeping force, bringing hope for an end to the violence in Darfur.

Challenges to the relationship in 2007 included China's test of an anti-satellite weapon in January, which remains insufficiently explained. The *USS Kitty Hawk* episode reminded both countries that bilateral trust was lacking and miscalculation was still possible. Differences also persisted on human rights. The U.S. and China agreed on the goal of preventing a nuclear-armed Iran, but disagreed on an approach to persuade Teheran to forswear nuclear weapons. Regarding Taiwan, the two countries found common ground in opposing the proposed referendum to join the UN under the name Taiwan, but differed over the implications of the referendum proceeding and garnering sufficient votes to pass. U.S. arms sales to Taiwan prompted Beijing's opposition but continued nonetheless, partly in response to China's unrelenting military buildup opposite the island.

2008 will open with another round of the Senior Dialogue led by Deputy Secretary of State Negroponte and Chinese Vice Foreign Minister Dai. Also in January, Commander of U.S. Pacific Command, Adm. Keating is scheduled to visit China. In June, another round of the Strategic Economic Dialogue will be held. In August, President Bush will travel to Beijing to attend the summer Olympics. The U.S. and Chinese militaries are planning to hold more joint exercises and expand exchanges of junior military officers. Sino-U.S. relations will remain complex and mutual distrust will undoubtedly persist, but both sides will continue to seek to preserve a stable and constructive bilateral relationship and collaborate where their interests overlap to promote regional and global peace and security.

Chronology of U.S.-China Relations October-December 2007*

Oct. 2, 2007: The Entry-exit Inspection and Quarantine Bureau of Rongcheng City, Shandong Province, rejects 47 tons of bacteria-infected sardines manufactured in the U.S.

Oct. 4, 2007: The U.S. Consumer Product Safety Commission recalls more than 630,000 Chinese-made toys, key chains, and other products due to violation of lead paint standard.

Oct. 10, 2007: The U.S. Congressional-Executive Commission on China releases its 2007 Annual Report on human rights and rule of law in China. China voices "strong dissatisfaction" against the report.

Oct. 11, 2007: China's Health Minister Chen Zhu is elected as a foreign associate of the U. S. Institute of Medicine (IOM).

Oct. 12, 2007: Food and Drug Administration Commissioner Andrew C. von Eschenbach visits China and meets Minister of Health Zhu Chen, Commissioner of State Food and Drug Administration Shao Mingli, and Vice Minister of AQSIQ Wei Chuanzhong.

* Chronology by Wang Liang, former CSIS intern, now working at the World Bank

Oct. 12, 2007: The Department of Commerce starts an anti-dumping probe into Chinese magnetic rubber.

Oct. 15-22, 2007: The 17th Party Congress of Chinese Communist Party is held in Beijing. It ends with amendment of the CCP constitution and announcement of new Central Committee and Standing Committee members.

Oct. 17, 2007: The Dalai Lama receives the Congressional Gold Medal in Washington and is received by President Bush for a private meeting in the White House residence. FM Yang Jiechi summons U.S. Ambassador Clark Randt in Beijing to formally protest.

Oct. 24, 2007: China launches its first lunar orbiter *Chang'e I*.

Oct. 24, 2007: Chinese and U.S. tourism officials open first dialogue meeting in North Carolina to explore ways of increasing cooperation on travel-related matters.

Oct. 24, 2007: China blocks a U.S. request to establish at a WTO expert panel to investigate Chinese imports of films, DVDs, music and other published products.

Oct. 31, 2007: Vice FM Wu Dawei meets Assistant Secretary of State Christopher Hill who is attending meetings with North Korean negotiator Kim Gye-gwan in Beijing.

Nov. 4-6, 2007: Secretary of Defense Gates visits China under the invitation of Defense Minister Cao Gangchuan. In Beijing, Secretary Gates meets President Hu Jintao, Vice Chairman of the Central Military Commission Gen. Guo Boxiong and Vice Foreign Minister Dai Bingguo.

Nov. 06, 2007: China and the U.S. celebrate the 35th anniversary of the Shanghai Communiqué.

Nov. 08, 2007: FM Dai Bingguo and Deputy Secretary of State Negroponte have a telephone discussion on U.S.-China relations and international issues of mutual concerns.

Nov. 13, 2007: Department of Defense announces plan to sell three sets of *Patriot II* anti-missile equipment upgrade systems to Taiwan. China voices its strong opposition.

Nov. 13, 2007: The U.S.-China Economic and Security Review Commission releases its 2007 Report to the U.S. Congress.

Nov. 17, 2007: Alexander Karsner, assistant secretary of energy efficiency and renewable energy, visits Beijing and meets Zhang Guobao, deputy minister of the National Development and Reform Commission. China and the U.S. draft a biofuel agreement on sharing knowledge and technology to reduce greenhouse gas emissions.

Nov. 21, 2007: China refuses the *USS Kitty Hawk* aircraft carrier and accompanying ships entry to the port of Hong Kong for a Thanksgiving holiday visit, and later reverses its decision on humanitarian grounds.

Nov. 26-28, 2007: FM Yang Jiechi attends the U.S.-sponsored international Middle East Conference in Annapolis, Maryland. In Washington, Yang Jiechi is received by President Bush at the White House, and has meetings with Secretary of State Rice and Treasury Secretary Paulson.

Nov. 29, 2007: U.S. Trade Representative Schwab announces that China agreed to eliminate WTO-illegal tax breaks that encouraged Chinese companies to export. The Chinese also agreed to scrap tax and tariff penalties that had penalized U.S. and other foreign countries trying to sell their goods in China.

Dec. 3, 2007: A PLA delegation headed by Deputy Chief of Staff for foreign affairs Ma Xiaotian attends Ninth China-U.S. Defense Consultation Talks in Washington. The U.S. side is chaired by Under Secretary of Defense for Policy Eric Edelman.

Dec. 4, 2007: Secretary of State Rice and FM Yang Jiechi have a telephone discussion on the Iran nuclear issue.

Dec.4-5, 2007: Former President Jimmy Carter visits Beijing, and is received by Chinese State Councilor Tang Jiaxuan and Member of the Standing Committee of the Politburo Xi Jinping.

Dec. 5, 2007: Assistant Secretary of State Hill visits Beijing and discusses issues related to the Six-Party Talks with Chinese officials.

Dec. 6, 2007: Presidents Bush and Hu have a telephone discussion regarding bilateral relations, Taiwan, Iran, and North Korea.

Dec. 6, 2007: Vice FM Wu Dawei receives Assistant Secretary Hill in Beijing after Hill's visit to Pyongyang.

Dec. 8, 2007: A memorandum from the Department of Homeland Security says a cyber attack reported by the Oak Ridge National Laboratory may have originated in China.

Dec. 11, 2007: The 18th Sino-U.S. JCCT session is held in Beijing. The session is co-chaired by U.S. Trade Representative Schwab and Commerce Secretary Gutierrez on the U.S. side and by Vice Premier Wu Yi on the Chinese side.

Dec. 12-13, 2007: The Third U.S.-China Strategic Economic Dialogue led by Secretary of Treasury Henry Paulson and Vice Premier Wu Yi are held in Beijing.

Dec. 19, 2007: In its semiannual report to Congress, the Treasury Department states that China is not manipulating its currency to gain unfair trade advantage. However, the report said the Chinese yuan remains severely undervalued against the U.S. dollar.

Dec. 27, 2007: The RMB reaches a new high against the dollar: 7.31 RMB/dollar.