



**US-China Relations:
Tensions Rise and Fall, Once Again**

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Diplomatic confrontations over the Yellow Sea and the South China Sea were the source of new bilateral tensions this quarter. Beijing vigorously objected to the dispatch of the aircraft carrier *USS George Washington* to waters near where the South Korean corvette *Cheonan* sunk after being attacked in March, even before Washington had made a decision to deploy it. Worried about Chinese diplomatic posturing and destabilizing activities in the South China Sea, Secretary of State Clinton delivered a clear statement of US interests at the ASEAN Regional Forum meeting in Hanoi that irritated Beijing. With the US mid-term elections approaching, US frustration mounted over China's unwillingness to allow its currency to appreciate against the dollar at a faster pace. The House of Representatives passed legislation that would allow the US to impose import duties on countries that have undervalued currencies. After more than five months of delay, the Pentagon submitted to Congress its annual report assessing Chinese military capabilities. Finally, two US presidential envoys traveled to Beijing to smooth over relations and President Obama met Premier Wen Jiabao on the margins on the UN General Assembly.

Senior US officials put China in broader foreign policy context

After more than a year of ups and downs in the bilateral relationship, speeches by senior US officials this quarter shed light on evolving Obama administration thinking about China. One underlying message was that the US-China relationship has not lived up to Washington's expectations. In a speech delivered to the Council on Foreign Relations in early September, Secretary of State Hillary Clinton listed China as one of several countries that are "emerging centers of influence" with which the US seeks to deepen engagement. She called on these countries to "accept a share of the burden of solving common problems, and of abiding by a set of the rules of the road ... on everything from intellectual property rights to fundamental freedoms." When nations do not accept the responsibility that accrues with expanding influence, Clinton noted, the US will "do all that we can to encourage them to change course while we press ahead with other partners."

Talking about regional dynamics and institutions, Clinton cited China and Brazil as examples of emerging powers that "have their own notions about what the right outcome [of regional situations] would be or what regional institutions should look like, and they are busy pursuing them." Implying that this has raised concerns among neighboring states, the secretary stated that "our friends, our allies, and people around the world who share our values depend on us to remain robustly engaged." Clinton denied that the US must be forced to choose between security and values in its foreign policy. She insisted that human rights are always on the US diplomatic

and development agendas, “even with nations on whose cooperation we depend for a wide range of issues,” including China.

In a keynote speech to the Eighth Institute of International Strategic Studies (IISS) Global Strategic Review conference held in Geneva, Switzerland, Deputy Secretary James Steinberg maintained that “there is no more consequential bilateral relationship for the United States going forward than with China.” He maintained that engagement with China through the Strategic and Economic Dialogue (S&ED) had led to “some notable successes,” including cooperation in addressing the global economic crisis in the G20, President Hu Jintao’s participation at the Nuclear Security Summit in Washington, and China’s support for new UN sanctions against Iran and North Korea. Steinberg called for building “strategic trust” with China. “The test of the future,” he said, will be whether Washington and Beijing can have differences without fundamentally destabilizing their relationship.

In his presentation in Geneva, as well a set of remarks delivered at the Nixon Center in Washington, DC in July, Steinberg emphasized the regional context of US policy toward China. In both speeches, he stressed that the US approach to the region has three pillars: strengthening traditional alliances, engaging with emerging regional powers (China, India, and Indonesia in particular), and building regional multilateral institutions. At the Nixon Center, Steinberg asserted that the pace of bilateral engagement with China remains strong and the US continues to “find a broad range of areas where we cooperate with China not only bilaterally, but regionally and globally.” Admitting that there are challenges in the relationship, he highlighted the need to deepen military-to-military engagement and make progress on energy and climate-related issues.

Yellow Sea confrontation brews

After many weeks of intense negotiations, the United Nations Security Council issued a presidential statement on July 9 on the sinking of the South Korean corvette, the *Cheonan*, which had occurred in late March. Due to opposition from both China and Russia, the statement did not blame North Korea, although it condemned the “attack” and included a reference to the findings of the Joint Civilian-Military Investigation Group led by the ROK with the participation of five nations, “which concluded that the DPRK was responsible for sinking the *Cheonan*.” At the insistence of Beijing and Moscow, the statement explicitly noted that the DRPK had “stated that it had nothing to do with the incident.”

Secretary of State Clinton interpreted the presidential statement as a “condemnation of North Korea’s attack” on the *Cheonan* that “sends a clear message that such irresponsible and provocative behavior is a threat to peace and security in the region and will not be tolerated.” China’s Foreign Ministry spokesman expressed hope that the “relevant parties” would “continue to exercise calmness and restraint” and “turn over the page of the *Cheonan* incident as soon as possible.” He also called for an early resumption of the Six-Party Talks. Privately, Chinese officials and scholars maintained that there was insufficient evidence to conclude that North Korea was the perpetrator of the attack.

The failure of the UN Security Council to agree that North Korea was responsible for the attack was a disappointment to Seoul and bolstered hardliners in the ROK military and the

administration of President Lee Myung-bak who favored more confrontational ways of signaling to Pyongyang that future aggressive acts against South Korea would invite a response. This included efforts to persuade the US to dispatch the *USS George Washington* carrier battle group to the waters off the west coast of Korea near where the *Cheonan* was attacked, which prompted a public spat with China.

The episode began in June when a South Korean defense official told South Korea's *Yonhap* News Agency that the US would within a week deploy the carrier *USS George Washington* along with a US *Aegis* destroyer and a nuclear submarine "in a show of force" in the Yellow Sea. Defense Secretary Robert Gates indicated, however, that he had no knowledge of a plan to send a carrier to the waters off South Korea and a Pentagon spokesman acknowledged that joint military drills were scheduled, but denied that any decision had been made with respect to carrier exercises with the ROK. Despite these official disavowals of a concrete plan to dispatch the *USS George Washington* to the Yellow Sea, the Chinese Foreign Ministry called for the "relevant parties" to "remain calm and exercise restraint." Two weeks later, following an announced postponement of the US-ROK military exercise until July, the Foreign Ministry spokesman spoke on the issue again, saying that Beijing was "very concerned about the report" of a possible deployment of a US carrier to the Yellow Sea.

Beijing's reaction was unexpected since the objectives of the US-ROK military exercises were limited to deterring further North Korean provocations, strengthening ROK anti-submarine warfare capabilities, and bolstering the US-ROK alliance. A Pentagon spokesman stated in mid-August that "China has no reason to view this exercise, or this series of exercises, as a threat to its security," but this did not reassure the Chinese. Beijing may have had several concerns. First, a huge show of force in the waters where the *Cheonan* sunk risked provoking a violent North Korean response that could escalate out of control. Second, strong opposition among Chinese netizens to the possibility of a US carrier being deployed close to China's coast presented the danger that the Chinese leadership could appear unwilling and possibly unable to defend China's core interests.

On July 1, Gen. Ma Xiaotian, deputy chief of staff of China's People's Liberation Army (PLA), adopted a harsher stance in an interview with the Hong Kong-based *Phoenix TV*. China "strongly opposes the drill in the Yellow Sea because of its close proximity to Chinese territorial waters," Ma asserted. A week later, the Foreign Ministry spokesman echoed this tougher language, declaring that "We firmly oppose foreign warships and military aircraft carrying out activities in the Yellow Sea and other Chinese coastal waters that affect China's security interests." In the meantime, the PLA East Sea Fleet announced that one of its units would engage in live-ammunition fire training in the waters of the East China Sea from June 30 to July 5. Maj. Gen. Luo Yuan wrote in *People's Daily* that the military exercise was aimed not just at deterring North Korea, but also would be used to conduct strategic reconnaissance against China and therefore posed a threat. He reminded Chinese readers that the Yellow Sea is "the gateway to China's capital region and a vital passage to the heartland of Beijing and Tianjin," and was a frequently used invasion route in Chinese history.

Beijing's reaction, which imprudently turned the planned US-ROK military drills into an issue in China-US relations, created a dilemma for the Obama administration. A decision to deploy the

USS George Washington in the Yellow Sea risked increasing tensions with China when relations were already strained due to US arms sales to Taiwan and President Obama's meeting with the Dalai Lama earlier in the year. Yet, failing to deploy the carrier risked being seen as weak and caving in to Chinese pressure. In the end, proponents of not unnecessarily exacerbating friction with Beijing prevailed and the administration dispatched the carrier in late July to the Sea of Japan, off the eastern coast of Korea, far from the disputed waters where the *Cheonan* sank. It was agreed, however, that the carrier would sail in the Yellow Sea at a later date.

In August, the fracas continued after a Pentagon announcement that the *USS George Washington* would soon be dispatched to the Yellow Sea for exercises with South Korea. China's Foreign Ministry spokesman again urged the "relevant parties" to take China's position and concerns seriously. *Xinhua* News Agency warned the US to reconsider its plan. "Offending Chinese people is not in the fundamental interest of the US. Any activity aimed at pushing a country with a 1.3 billion populace with enormous potential would be inadvisable."

A US-ROK military drill in the waters west of the peninsula that was originally planned for early September was delayed until the end of the month. The exercise included two destroyers along with other vessels, a submarine, and aircraft. No aircraft carrier participated in the exercise. A Pentagon spokesman said that although no date had yet been set for the *USS George Washington* to operate in the waters west of Korea, it "will indeed exercise in the Yellow Sea" as it does in other international waters. He stressed again that the US-ROK exercises are not intended to antagonize China, but rather as a warning to Pyongyang. It remains to be seen how China will react when the deployment eventually takes place.

A diplomatic fracas: South China Sea

At the mid-July ASEAN Regional Forum (ARF) in Hanoi, Secretary Clinton and Chinese Foreign Minister Yang Jiechi butted heads over the South China Sea issue. Speaking after 11 out of 27 countries' representatives voiced concerns about peace and stability in the South China Sea, Clinton maintained that the US had a "national interest in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea." She expressed support for the 2002 ASEAN-China Declaration on the Conduct of Parties (DOC) in the South China Sea, and offered assistance "to facilitate initiatives and confidence-building measures consistent with the declaration." Clinton did not alter the long-standing US position of neutrality on the territorial disputes in the region and did not take a position on how the disputes should be resolved. Rather, she emphasized the need to resolve disputes without the use or threat of force and stated that "claimants should pursue their territorial claims and accompanying rights to maritime space in accordance with the UN convention on the law of the sea."

Caught off guard by Clinton's address and the large number of countries that aired concerns about the situation in the South China Sea, Foreign Minister Yang took an hour-long break and then returned to the forum with his own strongly worded statement. He argued that the situation in the South China Sea was peaceful, and that the rapid growth of trade was evidence that navigational freedom had "obviously not" been hindered. Yang also insisted that "channels of discussion" between China and ASEAN were "open and smooth." Finally, he cautioned other countries against internationalizing the South China Sea territorial disputes. "It will only make

matters worse and the resolution more difficult. International practices show that the best way to resolve such disputes is for countries concerned to have direct bilateral negotiations.” A statement posted on China’s Foreign Ministry website entitled “Foreign Minister Yang Jiechi Refutes Fallacies on the South China Sea Issue” accused Secretary Clinton of launching an “attack” on China that was “designed to give the international community a wrong impression that the situation in the South China Sea is a cause for grave concern.”

Secretary Clinton’s articulation of a more detailed and coherent US policy on the South China Sea than in the past was a result of several developments. First, a number of states have been operating contrary to the DOC, in which parties agreed to resolve territorial disputes through peaceful means without the threat of or the use of force. This trend aroused worries in Washington given the sea’s importance to commercial activity and navigation. Second, many countries in the region, concerned about the potentially destabilizing nature of these activities, had urged the US to speak out on the issue. Chinese assertiveness in particular had raised concerns in both Southeast Asia and the US. With its military modernization, China has become better equipped to pursue its own interests through methods such as unilaterally enforcing fishing bans and providing naval escorts for Chinese fishing vessels. Third, there were worrisome signs that China’s stance on the South China Sea was hardening. According to widespread reports, high-ranking Chinese officials had told US counterparts in closed-door meetings that the South China Sea was one of China’s “core interests,” suggesting that the issue was “non-negotiable” and belonged to Beijing in the same way that Tibet, Xinjiang, and Taiwan are considered to be part of China. The US sought to head off the adoption of an official position by Chinese officials that the South China Sea was a core interest, which might include claiming sovereignty over the entire maritime space rather than waters “derived solely from legitimate claims to land features,” as Clinton stated at the ARF meeting. Accordingly, US officials privately explained, the Obama administration had concluded that it was necessary to go beyond traditional statements about “what US policy does not seek to do” in the South China Sea to a clear statement of “what US policy seeks to achieve.”

Later, at the Nixon Center on July 27, Deputy Secretary Steinberg explained that the motivation behind Secretary Clinton’s statement at the ARF was to acknowledge that the issue was a concern to all parties present, and to encourage “open discussion about how to take this forward and find a more constructive way to deal with it.”

After the ARF meeting, tensions over the South China Sea issue continued to rise as voices from both China and the US criticized the other country’s behavior and intentions. From the US, military officials were especially vocal about their concerns for US strategic interests, expressing unease about China’s actions in the South China Sea and emphasizing the importance of freedom of navigation. On July 23, Chairman of the Joint Chiefs of Staff Adm. Mike Mullen stated that China was taking a “much more aggressive approach” in its policy toward international waters near its coastline. US Pacific Command (PACOM) Commander Adm. Robert Willard echoed these sentiments, saying that Chinese assertiveness in the South China Sea had heightened concern in the region. He offered assurances that the US would maintain security and protect important trade routes. Rear Adm. Richard Landolt, commander of the US Navy 7th Fleet’s amphibious force, said in an interview on Sept. 19 that China’s recent activity in the South China Sea threatened the ability of other countries’ ships to operate freely. If China wants to be seen as

a major global power, he argued, it will need to act responsibly, particularly in assisting rather than hampering freedom of navigation.

From China's perspective, the US attempt to forge a coalition against China on the South China Sea issue was part of the Obama administration's strategy to reassert US influence in the region. Clinton's speech at the ARF further exacerbated Chinese suspicions that the US was attempting to tighten its strategic encirclement of China and undermine relations between China and its neighbors. Some Chinese media sources accused the US of using "divide and rule" tactics to deal with disputes and conflicts in the international arena, while others warned that the US "intention to sow discord between China and Southeast Asian countries will be in vain." At a press conference on July 30, China's Defense Ministry spokesman Geng Yansheng reiterated that China had "indisputable sovereignty" over the islands in the South China Sea and the nearby waters. On the eve of the ASEAN-US summit in New York in September, Foreign Ministry spokeswoman Jiang Yu said, "We resolutely oppose any country which has no connection to the South China Sea getting involved in the dispute, and we oppose the internationalization, multilateralization or expansion of the issue. It cannot solve the problem, but can only make it more complicated."

As the quarter drew to a close, Washington and Beijing signaled a shared desire to defuse tensions over the South China Sea and other issues. Following a meeting between President Obama and Premier Wen Jiabao on the sidelines of the UN General Assembly, National Security Council Senior Director for Asian Affairs Jeffrey Bader portrayed the preservation of peace and stability in the South China as a win-win rather than a zero-sum issue between the US and China, commenting that "there are no principles that [Secretary Clinton] laid out that China should object to." Wen declared alongside President Obama that common interests between the US and China "far outweigh" any differences the two may have, adding that he hoped to "foster favorable conditions" for President Hu's visit to the US next year.

Economic friction intensifies: currency valuation and unfair trade practices

Economic issues remained front and center in the US-China relationship this quarter as pressure mounted from US lawmakers and industry groups to punish China for an undervalued currency that has boosted Chinese exports and deprived Americans of jobs and profits. Since the People's Bank of China announced on June 19 that it would pursue a more flexible exchange rate after keeping the currency at about 6.83 per dollar for almost two years, the *yuan* has appreciated a mere 2.2 percent. With the US unemployment rate at 9.7 percent and the US mid-term elections only months away, there are signs that the Obama administration is losing patience with China on this issue.

Two areas linked to this "unfair advantage" this quarter were whether China would be officially labeled by the Obama administration as a "currency manipulator" and what, if any, actions the US would take in response to alleged Chinese World Trade Organization (WTO) violations. In early July, the Treasury Department issued its report on world currencies (after an almost three month delay), and while the report maintained that the *yuan* was "undervalued," the Treasury did not designate China as a currency manipulator. Although such an official designation would not trigger any specific legal repercussions, it would lend support to Congress' push to impose tariffs

on Chinese imports. The next foreign exchange report is due on Oct. 15 and policymakers are again pressing for the label “currency manipulator” to be applied to China, insisting that Chinese currency policy has hindered the US economic recovery.

US frustration with Chinese trading practices was further evidenced by the submission of two new cases against China at the WTO on Sept. 15 in response to claims of discrimination against US industries by the steel industry and credit card companies. US Trade Representative Ron Kirk expressed concern that China is “breaking its trade commitments to the United States and other WTO partners” by excluding US credit and debit card companies and by unfairly restricting imports of US steel. The move was applauded by key lawmakers on trade issues. “We can’t stand by while China abuses its unfair trade laws for protectionist purposes,” said Sen. Charles Grassley (R-IA), the lead Republican on the Senate Finance Committee.

In Congress, growing frustration about the pace of appreciation of the *yuan* led to accelerated efforts to pass legislation that would allow the US to impose import duties on countries that have undervalued currencies. The proposed bill pushed by Tim Murphy (R-PA) and Tim Ryan (D-OH) allows the Commerce Department to treat “fundamentally undervalued currencies” as an illegal export subsidy so that US companies can request a countervailing duty to offset China’s price advantage. The House Ways and Means Committee approved the legislation on Sept. 24, and the bill was passed by the House of Representatives in a 349-78 vote on Sept. 29. The Senate is unlikely to take up the bill until after the November elections.

Despite a preference for diplomatic pressure over legislation to persuade Beijing to revalue its currency, there was evidence this quarter that the Obama administration’s patience was wearing thin against the background of the upcoming mid-term elections. In testimony before the Senate Banking, Housing, and Urban Affairs and House Ways and Means Committees on Sept. 16, Treasury Secretary Tim Geithner said the US shares the assessment of the IMF that the *yuan* is “significantly undervalued,” and is looking at what “mix of tools” can be used to encourage China to “move more quickly.” He also described US concerns about Beijing’s inadequate enforcement of intellectual property rights and indigenous innovation policies that provide an unfair edge to Chinese domestic industries.

If the proposed currency legislation passes, China would likely challenge the measure at the WTO, with the potential for significant legal retaliation against US businesses. Obama administration officials have therefore stressed that any legislation must be in line with WTO rules, though they have not clearly stated whether the current bill meets this test. Most observers believe that even though it is unlikely that President Obama would sign the bill, the administration views the legislation as useful pressure on China to allow its currency to appreciate at a faster pace.

In response to the escalating criticism from US lawmakers and executive branch officials throughout the quarter, China insisted that neither the value of the *yuan* nor the trade deficit was to blame for US economic woes. In mid-September, Ministry of Commerce spokesman Yao Jian refuted the charge that an undervalued *yuan* was responsible for China’s trade surplus with the US and insisted that claims that China manipulates its currency to boost foreign trade were “groundless.” Speaking to US business leaders on the sidelines of the UN General Assembly

meeting, Premier Wen Jiabao stated that “The main reason for the US trade deficit with China is not the renminbi exchange rate, but the structure of trade and investment between the two countries.” China’s Foreign Ministry spokesman said it was “unwise and also near-sighted” for the US to pressure China to appreciate the *yuan* and warned that the bill could “harm relations.”

Enforcing Iran sanctions

Another area of bilateral contention this quarter was Iran’s nuclear ambitions. In June, the UN Security Council passed another round of sanctions against Iran, this time on its military establishment, demanding the suspension of its enrichment activities and a resolution of outstanding concerns regarding the nature of its nuclear program. After resisting new sanctions for almost a year, Beijing voted in favor of the resolution, but only after its demands that the energy sector be excluded were met. Subsequently, on July 1, the US Congress passed additional unilateral sanctions aimed at squeezing Iran’s energy and banking sectors. Not surprisingly, China criticized the action and argued that additional punitive measures should not be taken that go beyond the resolution agreed to in the UN Security Council. Later in the quarter, Japan and South Korea announced their own separate unilateral sanctions on Iran.

There is concern that as other countries withdraw from business dealings with Iran, China could gain a comparative advantage by staying in the market. The State Department’s Special Adviser for Nonproliferation and Arms Control Robert Einhorn at a press conference on Aug. 2 urged China to be more cooperative in enforcing UN sanctions against Iran, which “means not backfilling, not taking advantage of the responsible restraint of other countries.” China’s Foreign Ministry spokeswoman Jiang Yu countered the charge, saying that “China’s trade with Iran is a normal business exchange, which will not harm the interests of other countries and the international community.” While China claims to follow relevant UN Security Council Resolutions (UNSCRs) to the letter, the US hopes that it will put more pressure on Iran, as well as on North Korea, by subtle means such as delaying the signing and implementation of contracts.

In mid-September, when a report by the International Atomic Energy Agency (IAEA) claimed that Iran was continuing with its nuclear program in spite of the sanctions, China called on Tehran to fully cooperate with the IAEA to assure the international community that the country’s nuclear program is peaceful in nature. Addressing the IAEA board meeting on Sept. 13, Hu Xiaodi, China’s permanent representative and ambassador to the UN and other international organizations in Vienna, said that the countries involved should utilize diplomatic efforts to resolve the issue and expressed hope that the IAEA would play a positive role in negotiations. He added that in an effort to safeguard the NPT regime and ensure peace and stability, China was willing to play a positive role and would collaborate with other states to find a comprehensive, long-lasting, and appropriate solution.

While such rhetoric is welcome, the extent to which China is willing to join with the international community to encourage Tehran to eschew development of nuclear weapons remains to be seen. Thus far, China has been unwilling to creatively use its own leverage on Iran, preferring instead to strictly implement the UNSCRs. Washington worries that China’s expanding commercial ties could undercut international efforts to squeeze Iran. Sen. Joseph

Lieberman warned in a statement issued in early September that if Beijing undermines the new sanctions, Congress will move to enforce sanctions against Chinese companies using authority provided in recent US sanctions legislation. “Chinese companies have unfortunately in the past been allowed by their government to pursue their commercial self-interest in Iran, exploiting the restraint of other countries,” Lieberman said. “If this trend continues, China will isolate itself from the responsible international community in Asia and around the world.”

At the end of September, Einhorn visited Beijing to discuss sanctions on Iran and North Korea. He was accompanied by the Treasury Department’s Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser and Special Envoy for International Energy Affairs David Goldwyn.

Pentagon releases annual assessment of Chinese military

After a delay of more than five months, the Pentagon submitted to Congress its annual report assessing Chinese military capabilities on Aug. 16. In previous years, the report had been submitted as the *Military Power of the People’s Republic of China*, but due to a change in legislation, the report is newly titled *Military and Security Developments Involving the People’s Republic of China*. The contents included information on the Chinese military from 2009.

In the report, the Department of Defense maintained that China is pursuing anti-access, area-denial and force projection through expanding its capabilities. An important element of China’s anti-access and area-denial pursuits highlighted in the report is the continued development of its missile program, which is the “most active land-based ballistic and cruise missile program in the world.” For the first time, the report indicated that “China may also be developing a new road-mobile ICBM, possibly capable of carrying a multiple independently targeted re-entry vehicles (MIRV).” China is also developing a longer-range *B-6* bomber which, when armed with a long-range land-attack cruise missile, “will enable strikes as far as the second island chain.” The PLA Navy now “has the largest force of principal combatants, submarines, and amphibious warfare ships in Asia,” but in 2009 only the number of missile-equipped patrol craft has increased.

The first of China’s new *JIN*-class (Type 094) ballistic missile submarine (SSBN) is ready to deploy, but its *JL-2* submarine-launched ballistic missile (SLBM) “appears to have encountered difficulty, failing several of what should have been the final round of flight tests.” It is as of yet “uncertain” when the new submarine will be fully operational. China is also expanding its nuclear-powered attack submarine force and “may add up to five advanced Type 095 SSNs to the inventory in the coming years.” Over the next decade, China has plans to build several aircraft carriers and the domestic “shipbuilding industry could start construction of an indigenous platform by the end of this year.” Regarding the PLA’s ability to project power, the report maintained that “by the latter half of this decade, it is likely that China will be able to project and sustain a modest sized force ... in low-intensity operations far from China,” but that it is unlikely that China would “be able to project and sustain large forces in high-intensity combat operations far from China until well into the following decade.”

Regarding Taiwan, the DoD report asserts that the balance of power across the Taiwan Strait continues to shift in China’s favor. While the number of short-range ballistic missiles (SRBMs)

deployed opposite Taiwan has not noticeably increased (numbers have held steady between 1,050 and 1,150), China is “upgrading the lethality of this force, including by introducing variants of these missiles with improved ranges, accuracies, and payloads.” With regard to a cross-Strait contingency, the report says that, “China today probably could not enforce a full military blockade, interdicting and if necessary destroying nearly all traffic into Taiwan.”

In addition to the analysis of China’s military capabilities, several new topics are discussed in the DoD report. A chapter is devoted for the first time to the PLA’s “New Historic Missions,” which were assigned by Hu Jintao in December 2004. Fulfilling the new congressional requirement for the annual report, another chapter discusses military-to-military exchanges between the US and China. It argues that “sustainable and reliable” military ties are an important part of the bilateral relationship. However, “a sustained exchange program has been difficult to achieve,” and the “on-again/off-again” nature of the military relationship has limited “the ability of the two armed forces to explore areas of cooperation, enhance mutual understanding, improve communications, and reduce the risk that misapprehension or miscalculation could lead to crisis or conflict.”

Getting Relations Back on Track

After six months of escalating tensions that began in January when the Obama administration notified Congress of a \$6.4 billion package of arms to Taiwan, Washington and Beijing seemed to recognize the need to arrest the downward spiral in the US-China relationship. With sights set on a visit to the US by Hu Jintao in early 2011, both sides began to play down their differences and create a positive narrative beginning in late August. On Aug. 25, Vice Foreign Minister Cui Tiankai arrived in Washington DC to hold the China-US vice foreign ministerial political consultations and spent a full day in discussions with Deputy Secretary of State Steinberg, Assistant Secretary of State Kurt Campbell, and NSC Senior Director for Asian Affairs Bader. According to a Chinese Foreign Ministry spokesman, the two sides agreed that maintaining sound bilateral relations serves both sides’ best interests and contributes to regional and global peace, stability, and prosperity. Moreover, they agreed that the two countries should continue to build “a positive, cooperative and comprehensive relationship”; work to maintain, deepen and broaden communication, strategic mutual trust, and practical exchanges and cooperation; and handle disputes and sensitive issues “properly.” A number of regional and global issues were discussed, including the South China Sea and North Korea. Cui subsequently met with Deputy National Security Adviser Thomas Donilon and Under Secretary of Defense Michele Flournoy.

In early September, two presidential envoys were dispatched to Beijing to smooth over relations and lay the groundwork for President Hu Jintao’s visit. Thomas Donilon and National Economic Council Director Lawrence Summers met Vice Premier Wang Qishan, State Councilor Dai Bingguo, Foreign Minister Yang Jiechi, Vice Chairman of China’s Military Commission Xu Caihou, and People’s Bank of China Governor Zhou Xiaochuan, among others. Citing officials familiar with the meetings, *The New York Times* reported that the visit was intended “to try to get the two countries focused on some common long-term goals.” One apparent concrete result of the trip was agreement by Beijing to resume bilateral military exchanges.

President Hu and Prime Minister Wen both met the US delegation, an unusual move as Chinese leaders customarily meet only foreign counterparts of equal rank. In a report on the meeting, the Hong Kong newspaper *Wen Wei Po* said that Hu called for healthy and stable ties between the two countries. “China looks positively on the fresh progress made in China-US relations, and we are willing to work together with the US in promoting the advance of healthy and stable China-US relations,” said President Hu. “I’m sure that this visit will certainly enhance mutual communication and mutual trust,” he added.

State Councilor Dai Bingguo underscored the need to carefully manage differences between the two countries. He told the US government representatives, “Strategic trust is the basis of China-US cooperation.” According to a release by the Chinese Embassy in Washington, Dai expressed China’s willingness to work with the US, increase high-level contacts, and expand cooperation in all areas in a bid to push forward China-US relations. The positive atmosphere of the meetings and the high-level treatment accorded to Donilon and Summers signaled both to China’s domestic audience and to the US that Beijing continues to attach great importance to the bilateral relationship and hopes to keep ties on an even keel in the run-up to Hu’s planned visit to the US.

On Sept. 22, on the eve of meeting President Obama on the margins of the United Nations General Assembly in New York, Premier Wen delivered a speech on US-China relations to a gathering of business leaders and scholars. Although he rebuffed charges that China’s exchange rate is undervalued, Wen said that he was optimistic that trade tensions between the US and China could be resolved. “Common interests between our two countries far outweigh our differences,” he said. The issue of China’s currency nevertheless dominated the two-hour meeting between Wen and Obama the following day. Jeffrey Bader described the conversation as “candid” and said that Obama stressed “the need for China to do more than it has done to date” and talked about the need for China to protect intellectual property rights and provide fair treatment for US companies in China. Wen reportedly adhered closely to China’s long-standing position that “reform” of China’s exchange rate mechanism will proceed gradually.

Meeting jointly with the press, President Obama characterized the US-China relationship as based on cooperation, mutual interest, and mutual respect. Noting that the two countries have cooperated to stabilize the world economy, Obama stressed the need to “continue to do more work cooperatively in order to achieve the type of balance and sustained economic growth that is so important and that we both signed up for in the context of the G20 framework.” Premier Wen also highlighted US-China cooperation, citing the financial crisis, climate change, and regional hotspot issues as examples. He expressed confidence that “differences can be well resolved through dialogue and cooperation” and that the bilateral relationship “will always forge ahead.

Looking Ahead

In the final quarter of 2010, domestic politics will be the focus of attention in both countries. In October, China will hold the fifth plenum of the Chinese Communist Party’s 17th Central Committee, where the draft of the nation’s 12th Five-Year Plan is on the agenda for approval. The following month, the US will hold mid-term elections.

Assuming that Hu Jintao's visit to the US proceeds in January as planned, the last quarter of 2010 will include a flurry of activity to prepare for the trip. Bilateral military exchanges are set to resume with a meeting of the Military Maritime Consultative Agreement (MMCA) in October. The Defense Consultative Talks are likely to be held before the end of the year, co-hosted by Deputy Chief of the General Staff of the PLA Ma Xiaotian and Under Secretary of Defense for Policy Michele Flournoy. A visit to China by Defense Secretary Gates is also under discussion.

Chronology of US-China Relations*

July – September 2010

July 1, 2010: According to *Xinhua*, Deputy Chief of General Staff of the People's Liberation Army (PLA) Gen. Ma Xiaotian says China would welcome a visit by Secretary of Defense Robert Gates, "at a time that is convenient for both sides."

July 2, 2010: GM announces that for the first time it sold more cars in China than the US.

July 5, 2010: A Chinese court finds geologist Xue Feng, a naturalized US citizen, guilty of stealing state secrets and sentences him to eight years in prison.

July 6, 2010: China denounces US unilateral sanctions imposed against Iran, saying that additional measures should not be taken outside of the UN Security Council.

July 8, 2010: After a three-month delay, US Treasury Department issues its report on currency.

July 8, 2010: China's Foreign Ministry spokesman Qin Gang says China firmly opposes any foreign warships or planes entering the Yellow Sea as well as adjacent waters that engage in activities that would negatively affect Chinese security and interests.

July 8, 2010: UN Security Council issues a presidential statement condemning the March 26 attack on the South Korean ship, the *Cheonan*, but does not blame North Korea for the sinking.

July 9, 2010: *Reuters* reports that China's exports in June increased 43.9 percent from June 2009, which was above expectations of a 38 percent rise.

July 15, 2010: Foreign Ministry Spokesman Qin Gang states, "We firmly oppose any foreign military vessel or plane conducting activities in the Yellow Sea and China's coastal waters undermining China's security interests. Under the current circumstances, we hope relevant parties exercise calmness and restraint and refrain from activities that would escalate tension in the region."

July 17-18, 2010: China holds "Warfare 2010," a military exercise held in the Yellow Sea involving troops from the Jinan Military Region and the staff of the Ministry of Transport.

* Chronology and research assistance by CSIS intern Robert Lyons and David Silverman

July 19-20, 2010: The International Energy Association (IEA) says that China surpassed the US last year to become the world's biggest energy consumer, but the US remains the largest energy consumer per capita. Zhou Xian, China's National Energy Administration spokesperson, says IEA estimates of China's consumption are too high.

July 20, 2010: China's Ministry of Commerce spokesperson Yao Jian states that Congress' investigation of China's planned investment in a steel venture in Mississippi is a protectionist measure.

July 19-20, 2010: Chinese Minister of Science and Technology Wan Gang attends the Clean Energy Ministerial Forum in Washington and meets Secretary of Commerce Gary Locke, White House Science and Technology adviser John Holdren, and other US officials.

July 21, 2010: In response to widespread piracy in China, US lawmakers petition President Obama's chief intellectual property enforcement official Victoria Espinel to press China for greater protection of intellectual property.

July 21, 2010: Testifying to Congress, US Federal Reserve Chairman Ben Bernanke states that China's undervalued currency helps to subsidize China's exports, but he cautions that Congressional action is not the preferable way to get China to act.

July 21, 2010: In response to planned US-ROK exercises, China's Foreign Ministry spokesman says that China "firmly oppose(s) foreign warships and military aircraft entering the Yellow Sea and other coastal waters of China to engage in activities affecting China's security and interests.

July 23, 2010: At the ASEAN Regional Forum in Hanoi, Secretary of State Hillary Clinton states, "The United States has a national interest in freedom of navigation, open access to Asia's maritime commons and respect for international law in the South China Sea." On the sidelines of the meeting, Clinton meets Foreign Minister Yang Jiechi to discuss bilateral issues.

July 23, 2010: During a trip to New Delhi, Chairman of the Joint Chiefs of Staff Adm. Mike Mullen says China is taking a "much more aggressive approach" in its policy toward international waters near its coastline and adds that he has gone from being "curious" to being "concerned" about China's military buildup and its intentions.

July 25, 2010: In a press release posted on the Foreign Ministry's website, Foreign Minister Yang Jiechi cautions other countries not to "internationalize" South China Sea territorial disputes between China and its neighbors.

July 26, 2010: China's Commerce Minister Chen Deming writes in a *Financial Times* op-ed article that China is open to foreign business and "will open wider in the future."

July 27, 2010: Deputy Secretary of State James Steinberg gives remarks on China at the Nixon Center in Washington DC.

July 28, 2010: In its first report on China in four years, the International Monetary Fund labels China's currency as "undervalued."

July 29, 2010: Chinese defense officials announce that naval forces conducted drills in the South China Sea on July 26.

July 30, 2010: Chinese Defense Ministry spokesman Geng Yansheng states that China has "indisputable sovereignty" over islands in the South China Sea and the nearby waters.

Aug. 2, 2010: State Department Special Adviser for Nonproliferation and Arms Control Robert Einhorn calls on China to be more cooperative in enforcing UN sanctions against Iran, saying that "means not backfilling, not taking advantage of the responsible restraint of other countries."

Aug. 5, 2010: Foreign Ministry spokeswoman Jiang Yu states that "China's trade with Iran is a normal business exchange, which will not harm the interests of other countries and the international community."

Aug. 6, 2010: Foreign Ministry spokeswoman Jiang Yu urges the US and the ROK to respect China's position and concern more seriously regarding military drills in the Yellow Sea.

Aug. 9, 2010: Vice Premier Wang Qishan meets Sen. Evan Bayh (D-IN) in Beijing.

Aug. 9, 2010: Jury in Hawaii finds US engineer Noshir Gawadia guilty of selling military secrets to China.

Aug. 10, 2010: Secretary Clinton expresses US condolences for the loss of life and damage caused by the mudslide in China.

Aug. 11, 2010: US Ambassador to China Jon Huntsman announces that the US has contributed \$50,000 for relief work in the mudslide devastated area in China's Gansu province.

Aug. 16, 2010: China passes Japan to become the world's second-largest economy.

Aug. 16, 2010: The Pentagon submits its annual report to Congress assessing Chinese military capabilities.

Aug. 18, 2010: Defense Ministry spokesman Geng Yansheng voices China's firm opposition to the Pentagon's report stating that the report "ignores objective facts and makes accusations about China's normal national defense and military building."

Aug. 18, 2010: Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela visits Beijing for the fourth round of talks on Latin America under the umbrella of the US-China Strategic and Economic Dialogue. He states that China's growing presence in Latin America does not pose a threat to the US.

Aug. 18, 2010: After meeting the head of the Philippine military, US Pacific Command Commander Adm. Robert Willard says that Chinese assertiveness in the South China Sea is causing concern in the region and the US will work to maintain security and protect important trade routes.

Aug. 24, 2010: The US announces it will sell “defense services, technical data, and defense articles” for Taiwan’s air defense and radar equipment its Indigenous Defense Fighter jets.

Aug. 25, 2010: Vice Foreign Minister Cui Tiankai arrives in Washington to attend the China-US vice foreign ministerial political consultations.

Aug. 27, 2010: Foreign Ministry spokeswoman Jiang Yu says: “China resolutely opposes the United States selling weapons and relevant technical assistance to Taiwan,” and calls on the US to “put an end to arms sales to Taiwan and military ties with Taiwan to avoid causing new harm” to bilateral relations.

Aug. 29, 2010: China announces that the Beihai Fleet of the PLA Navy will conduct live-ammunition exercises from Sept. 1-4, in the sea off the southeast coast of Qingdao city.

Aug. 31, 2010: A preliminary determination by the US Commerce Department’s Import Administration finds that \$514 million of aluminum products imported from China in 2009 were unfairly subsidized.

Sept. 1, 2010: China’s Representative to the Six-Party Talks, Wu Dawei, holds talks with US officials in Washington.

Sept. 1, 2010: China’s Ministry of Commerce expresses “serious concern” about US proposal to strengthen trade remedy practices, which it says will undermine order in international trade.

Sept. 6, 2010: National Economic Council Director Lawrence Summers and Deputy National Security Adviser Thomas Donilon begin a 3-day visit in Beijing.

Sept. 7, 2010: China calls on Iran to fully cooperate with the International Atomic Energy Agency (IAEA) to assure the international community that the country’s nuclear program is peaceful in nature.

Sept. 9, 2010: Commerce Department reports that the US trade deficit with China dropped slightly to \$25.9 billion, but remained the largest of all US trading partners.

Sept. 10, 2010: The United Steelworkers union accuses China of using unfair trade practices to create jobs in its clean energy technology sector and get a permanent edge on US manufacturers.

Sept. 11, 2010: Deputy Secretary of State James Steinberg delivers a speech on the US and China at an International Institute for Strategic Studies meeting in Geneva, Switzerland.

Sept. 13, 2010: Prime Minister Wen Jiabao, at a World Economic Forum meeting in Tianjin, China, states that China's trade surplus is "not intentional."

Sept. 13, 2010: In an interview with the *Wall Street Journal*, Treasury Secretary Timothy Geithner says China is doing "very, very little" to allow the *yuan* to appreciate.

Sept. 15, 2010: Commerce Ministry spokesman Yao Jian refutes assertions by members of the US congress that the undervalued *yuan* is responsible for China's trade surplus with the US.

Sept. 16, 2010: Treasury Secretary Geithner testifies before the Senate Banking, Housing, and Urban Affairs and House Ways and Means Committees on China's currency policies and the US-China economic relationship.

Sept. 16, 2010: Stephen Bosworth, US special envoy for North Korea, visits China to discuss how to resume the six-party negotiations on the denuclearization on the Korean peninsula.

Sept. 20, 2010: Rear Adm. Richard Landolt, commander of the US Navy 7th Fleet Amphibious Force, says China is making moves threatening the ability of ships of other countries to move freely in the South China Sea.

Sept. 23, 2010: President Obama meets Premier Wen Jiabao on the sidelines of the UN General Assembly and presses for China to immediately revalue its currency.

Sept. 24, 2010: US House Ways and Means Committee approves legislation that would allow companies to petition for duties on Chinese imports to compensate for an undervalued currency.

Sept. 26, 2010: The Ministry of Commerce announces China will impose import duties on US chicken products it says are being unfairly dumped on the Chinese market.

Sept. 27-28, 2010: Michael Schiffer, deputy assistant secretary of defense for East Asia, visits Beijing in an effort to lay the groundwork for renewed US-China military exchanges.

Sept. 28-30, 2010: Department of State Special Adviser on Nonproliferation and Arms Control Robert Einhorn visits China.