



US-China Relations:

Friction and Cooperation in Run-up to Hu's US Visit

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In the final quarter of 2010, China-US relations were marked by the now familiar pattern of friction and cooperation. Tensions spiked over North Korea, but common ground was eventually reached and a crisis was averted. President Obama's 10-day Asia tour, Secretary of State Clinton's two-week Asia trip, and US-ROK military exercises in the Yellow Sea further intensified Chinese concerns that the administration's "return to Asia" strategy is aimed at least at counterbalancing China, if not containing China's rise. In preparation for President Hu Jintao's state visit to the US in January 2011, Secretary Clinton stopped on Hainan Island for consultations with Chinese State Councilor Dai Bingguo and Deputy Secretary of State Steinberg visited Beijing. Progress toward resumption of the military-to-military relationship was made with the convening of a plenary session under the US-China Military Maritime Consultative Agreement (MMCA) and the 11th meeting of the Defense Consultative Talks. Differences over human rights were accentuated by the awarding of the 2010 Nobel Peace Prize to Chinese dissident Liu Xiaobo.

Gaping differences over North Korea

North Korea's provocative moves this quarter posed a challenge to the US-China bilateral relationship and Northeast Asian stability. The news that North Korea had built a sophisticated uranium enrichment plant took Washington and Beijing by surprise. As the two countries prepared to consider how to respond to the apparent North Korea violation of UN Security Council resolutions, Pyongyang shelled South Korea's Yeonpyeong Island, killing two civilians and two marines deployed on the island. In sharp contrast to the immediate condemnations of North Korea issued by Moscow, Tokyo, and Washington of the unprovoked attack, Beijing avoided blaming either side for the incident. *Xinhua* quoted Premier Wen Jiabao as saying during his meeting with Russia's President Medvedev that "all concerned parties" should exercise "maximum restraint" and that the international community should "make more efforts conducive to easing tensions." China's proposal to convene an emergency meeting of the Six-Party Talks was judged premature and was rebuffed by the US and its allies.

In a phone call with South Korean President Lee Myung-bak after the incident, President Barack Obama called for China to take a firmer stance on North Korea. Pressure on China was further intensified by public calls from Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, for China to get North Korea to stand down. Speaking on *ABC's "The View,"* Mullen stated that "The one country that has influence in Pyongyang is China and so their leadership is absolutely critical." State Department spokesman P.J. Crowley also urged China to act. "China does have influence with North Korea and we would hope and expect that China will use that influence,

first to reduce tensions that have arisen as a result of North Korean provocations and then secondly to continue to encourage North Korea to take affirmative steps to denuclearize,” Crowley said. Speaking on background, a senior US administration official told *The Washington Post* that China’s “embrace of North Korea in the last eight months has served to convince North Korea that China has its back and has encouraged it to behave with impunity ... We think the Chinese have been enabling North Korea.”

As calls mounted from the US, Japan, and South Korea for Beijing to curb North Korea, China’s Ambassador to Japan Cheng Yonghua told the *Asahi Shimbun* that the three nations should talk directly to North Korea about their concerns, rather than ask China to do it. “I cannot understand why whenever something occurs in North Korea the responsibility is always pushed upon China,” Cheng told the Japanese newspaper.

Immediately following the shelling, the White House told the press that President Obama would place a phone call to Hu Jintao to discuss the crisis, but the call was not arranged until Dec. 5, almost two weeks after the attack, apparently due to the two presidents’ conflicting schedules. According to a statement released by the White House, Obama emphasized the need for North Korea to halt its provocative behavior and to meet its international obligations, including its commitments in the 2005 Six Party Joint Declaration. He urged China “to work with us and others to send a clear message to North Korea that its provocations are unacceptable.” According to a *Xinhua* account of the conversation, Hu Jintao maintained that China is “deeply worried” about the current situation on the Korean Peninsula and views the security situation as “fragile.” “If handled improperly,” Hu warned, there could be “continuous escalation of the tense situation, and even the loss of control.” He called for dealing with the situation in a “calm and rational manner” and to “resolutely prevent the further deterioration of the situation.”

At a closed-door emergency meeting of the United Nations Security Council initiated by Russia, the US and China crossed swords. The US insisted on a clear condemnation of North Korea, but China insisted that blaming Pyongyang would be a “provocation.” After six hours of talks, the majority of council members concluded that no statement would be preferable to an ambiguous statement that fails to assign responsibility for North Korea’s aggression against South Korea.

Steinberg Goes to Beijing

When President Obama talked by phone to President Hu, he suggested dispatching a senior official to Beijing to discuss the situation on the Korean Peninsula and address other issues in preparation for Hu’s January visit to the US. Hu agreed, and Deputy Secretary of State James Steinberg traveled to Beijing in mid-December accompanied by Jeff Bader, senior director for Asia at the National Security Council, and Sung Kim, special envoy for the Six-Party Talks. During the visit, the US delegation met State Councilor Dai Bingguo, Director of the International Department of the Central Committee of the Communist Party Minister Wang Jiarui, Executive Vice Foreign Minister Zhang Zhijun, Vice Foreign Minister Cui Tiankai, and Special Representative on the Korean Peninsula Affairs Amb. Wu Dawei.

In a meeting with Dai Bingguo, Steinberg exchanged views on several issues including both general bilateral relations and the situation on the Korean Peninsula. A press release issued by

the Chinese Ministry of Foreign Affairs (MFA) quoted Dai, saying that China was “willing to make joint efforts with the US side, properly handle relevant sensitive issues, and eliminate interferences” so that bilateral relations would continue to experience “positive, cooperative, and comprehensive growth on the basis of mutual respect, mutual benefit, and a win-win development.” The two sides reaffirmed their common interests in the preservation of peace and stability and the promotion of denuclearization of the peninsula. According to the Chinese MFA statement, the US would “continue to work with China to promote the contact and negotiation process, including dialogue between the South and the North.”

In a Dec. 17 statement, US Embassy in China’s spokesman Richard Buangan stated that the group had “useful conversations concerning shared interests in peace and stability in northeast Asia,” notably denuclearization of the Korean Peninsula and implementation of the 2005 Joint Statement. Apparently, Steinberg strongly urged Beijing to send a firm message to North Korea to halt its provocations. Jin Canrong, associate dean of international studies at Renmin University, told *The Financial Times* that Steinberg’s “attitude was quite stern, so China went and made some strong effort [to lobby Pyongyang].”

Crediting China

By the end of the quarter, US-China consultations on North Korea had successfully led to a common path forward. The Obama administration credited Beijing with persuading Pyongyang to refrain from responding militarily to live-fire drills that were conducted by South Korea’s military Dec. 22-24. The US and China agreed on a plan to press the North to reconcile with the South as a precursor to resumption of US-North Korea bilateral dialogue and the Six-Party Talks. Undoubtedly, the upcoming January visit by Hu Jintao to the US provided impetus for the two countries to find common ground.

Clinton meets Dai on Hainan Island

During her Asia trip in October, Secretary of State Hillary Clinton met State Councilor Dai Bingguo for two hours on Hainan Island in the South China Sea. The meeting had originally been scheduled to take place in Hanoi, but at China’s request, Clinton agreed to hold the meeting on Chinese territory. Kurt Campbell, US assistant secretary of state for the Bureau of East Asian and Pacific Affairs, stated in an Oct. 26 press conference that Clinton and Dai had agreed to have “more informal diplomacy, more regular consultations” on several issues during multilateral meetings in the region, and that the side-trip to Hainan offered such an opportunity. According to a press release issued by the Chinese Embassy in Washington following the talks, the two sides made “positive comments” on US-China relations; agreed to enhanced dialogue, trust and cooperation; and pledged to stay in close contact to “create a favorable atmosphere” for Hu Jintao’s January visit.

Sino-Japanese tensions and Chinese policy on exports of rare earth minerals dominated the discussions. China had halted exports of rare earths to Japan in September after the Japanese refused to release the captain of a Chinese fishing trawler who had rammed into two Japanese patrol craft near the Senkaku (Diaoyu) Islands. Restrictions on Chinese rare earth exports then appeared to spread to shipments to the US and Europe a month later, raising concerns globally.

Beijing denied that it was interfering with exports and insisted that it would remain a “reliable supplier.” Prior to her stopover in Hainan, during a press conference in Honolulu, Hawaii, Clinton expressed concerns that China could use its rare earth monopoly as a political tool and called for countries to find alternative suppliers for the materials. Subsequently, Clinton met Chinese Foreign Minister Yang Jiechi in Hanoi on the sidelines of the East Asia Summit. At a press conference following their talks, Clinton stated that with regard to the rare earth issue, Yang had “clarified that China has no intention of withholding these minerals from the market. He said that he wanted to make that very clear.” Following the meeting on Hainan, US officials stated that Dai had made similar statements and had reassured Clinton that Beijing did not pursue a policy that restricts the sales of China’s mineral assets.

China debates and reacts to US Asia strategy

President Obama’s 10-day Asia tour and Secretary Clinton’s two-week Asia trip this quarter were widely portrayed in the Chinese media as aimed at shaping the strategic balance in the region so it is more favorable to the US. Some Chinese experts depicted the visits as deliberately designed to drive a wedge between China and its neighbors and strategically encircle China. In an article posted on *Guangming Wang*, for example, Qiu Lin maintained that the Obama administration made a “deliberate detour” of China and sought to “counter China’s increasing influence in the Asia-Pacific region.” Qiu maintained that the four countries on Obama’s itinerary (India, Indonesia, South Korea, and Japan) are “all closely connected to the United States in national defense and security,” which shows that the US is changing its “long-established strategy” toward China from “the one-to-one dialogue in the past to roping in a series of its allies to collectively apply pressure on China.” Other experts charged that Obama’s support for India to become a permanent member of the UN Security Council was intended to sow discord between China and India and counterbalance Chinese influence.

Not all Chinese analysts agreed with such analysis, however, and several cautioned against over interpreting the trips to Asia by President Obama and Secretary Clinton. Writing in *Liaowang*, Du Lan, a researcher from the Ministry of Foreign Affairs think tank, noted that Obama’s stops in South Korea and Japan were for the purpose of attending the G20 Summit and the APEC Forum respectively, and that Indonesia was included because Obama had twice canceled planned visits there. Du disagreed with the proposition that Obama was “detouring around without entering, and encircling China,” arguing instead that Obama had visited China in November 2009, so it was “very normal” for him to not visit China on this trip. Moreover, he stated, Treasury Secretary Timothy Geithner and Vice Premier Wang Qishan had recently held an ad hoc meeting at the Qingdao airport, and Secretary Clinton had stopped in Hainan to meet with Dia Bingguo. Therefore, Du concluded, “It is evident that contact and cooperation are still the main thread in Sino-US relations, and the United States still needs to coordinate with China on major issues” even as it seeks to use the countries on China’s periphery to counterbalance China. In an article entitled “Do Not Over-Interpret Obama’s Asian Trip” carried by *Dongfang Zaobao*, Shen Dingli, executive vice dean of the Institute of International Affairs at Fudan University, similarly argued that “that the US President is to visit China’s neighboring countries without entering China absolutely does not mean that the United States wants to draw Japan, the ROK, and India to its side to contain China.”

Secretary Clinton's assertion that the Senkaku Islands (Diaoyu Islands in Chinese) are covered under Article 5 of the 1960 Japan-US Security Treaty, which obligates the US to come to the defense of Japan, prompted a harsh official reaction from Beijing. Clinton's statement, which was a reiteration of US policy that she had made as recently as September in New York, was made on Oct. 28 at a press conference in Honolulu following a meeting with Japanese Foreign Minister Maehara Seiji. China's Foreign Ministry spokesman insisted that China has "indisputable sovereignty" over the islands and maintained that the US-Japan Treaty "should not harm the interests of any third parties, including China." The spokesman declared that the Chinese government and people would "never accept any word or deed that includes the Diaoyu Island within the scope of the treaty."

A few days later in Hanoi on the sidelines of the East Asia Summit, Foreign Minister Yang Jiechi warned Secretary Clinton to not make erroneous remarks on such a highly sensitive issue and urged her to respect China's sovereignty and territorial integrity. A signed commentary on the website of the PRC-owned Hong Kong Journal *Ta Kung Po* blasted Clinton's remarks, saying that they "can only smear her own image as a politician and are very unfavorable for Sino-Japanese relations and Sino-US relations."

Beijing firmly rejected a proposal by Secretary Clinton to hold a trilateral US-China-Japan meeting that had originally been scheduled in June 2009, but had been postponed by China due to concerns about a negative reaction by North Korea. Media reports claimed that Clinton had offered to mediate the territorial dispute between Japan and China. China's Foreign Ministry spokesman said that "Having official trilateral talks between China, Japan and the United States is only the wishful thinking of the US side."

In late November, the US deployment of a carrier battle group to the Yellow Sea following North Korea's attack on Yeonpyeong Island provoked criticism from Beijing. In response to a question about the planned US-ROK military exercise that would include the *USS George Washington* aircraft carrier, the Foreign Ministry spokesman said that an unnamed country was "brandishing swords and spears." This formulation was nevertheless significantly more restrained than remarks made in July about an earlier exercise that was reportedly planned for the Yellow Sea, but was eventually conducted on the eastern side of the Korean Peninsula. On that occasion, China's Foreign Ministry spokesman had expressed "resolute opposition" to "foreign warships or military airplanes conducting activities in the Yellow Sea and other coastal waters of China that will affect China's security interests." An editorial in Hong Kong's PRC-owned *Wen Wei Po*, which is often used to signal Chinese positions, took a much harsher stance on the latest exercise, calling the military drill an effort by the US to "capitalize on the DPRK-ROK military dispute" that "seriously provokes China and exposes the US's strategic plot to curb China."

Pentagon officials insisted that the military drills were not aimed at China and took place in international waters. In an interview with *Phoenix Television*, Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, revealed that the US-ROK exercises had been planned a month prior, and that the US had informed China of their objective and how long the drills would last.

Following on the heels of the Yellow Sea drills, the US and Japan conducted their biggest-ever joint military exercises in early December with the South Korean military taking part as an observer. *Keen Sword 2010* involved more 34,000 Japanese and 10,000 US troops and ran for

eight days. China criticized the *Keen Sword* exercise as an obstacle to easing tensions on the Korean Peninsula, and reiterated its call for increased diplomatic efforts. “Brandishing of force cannot solve the issue,” Chinese Foreign Ministry spokeswoman Jiang Yu said. “Some are playing with knives and guns while China is criticized for calling for dialogue. Is that fair?”

US provides clarification and reassurance

Perhaps to assuage Beijing’s intensifying suspicions and unease about US intentions toward China as well as to counter the narrative that was taking hold in the Western media that US-China relations are rapidly deteriorating, US officials sought to reassure the Chinese several times during this quarter that the Obama administration’s “return to Asia” is not aimed at harming Chinese interests. In a speech delivered in Hawaii on her way to Asia, Secretary Clinton denied that the US and China have a zero-sum relationship, where “whenever one of us succeeds, the other must fail.” She also rejected the view that she attributed to “many in China” that the US is bent on containing China. Instead, she said that “the US and China are working together to chart a positive, cooperative, and comprehensive relationship for this new century.”

Ahead of defense talks with Australia, US Defense Secretary Robert Gates told the media that the US was “looking at ways to strengthen” its presence in Asia, but he stressed that the US moves in the region were not a response to actions by Beijing. “No, this isn’t about China at all,” Gates said, pointing to increased ties with countries in the region on shared interests such as counterterrorism, counterpiracy and disaster relief. “It’s more about our relationships with the rest of Asia than it is about China.”

At a press conference with Indonesian President Yudhoyono in Jakarta, President Obama seized the opportunity to offer his own reassurances. “We want China to succeed and prosper,” he stated, adding that “we’re not interested in containing that process.” At the same time, Obama stated that the US wants “to make sure that everybody, including China, the United States, and Indonesia, is operating within an international framework and sets of rules in which countries recognize their responsibilities to each other.”

Briefing the press on the eve of President Obama’s departure for Asia, Jeff Bader, the senior director for Asia at the National Security Council, insisted that there is “nothing new” about areas of difference and friction in the Sino-US relationship. Noting that relations have never been “easy,” he maintained that there has always been “a balance sheet of issues where we’re cooperating and issues where we’re not cooperating.” Bader put forward three “fundamental pillars” on which the administration’s approach to dealing with China is based: 1) broadening areas of cooperation in the bilateral relationship, 2) strengthening US relationships with partner and allies throughout the region “to assure that China’s ... rise contributes to, rather than detracts from Asian stability,” and 3) insisting that China abide by global norms and international law.

In a speech on US-China relations delivered to the Center for American Progress on Dec. 7, Deputy Secretary Steinberg also attempted to put to rest concerns about growing friction. He noted that the “flavor of the week” is that the relationship is “experiencing a serious downturn” or “a freeze,” but asserted that “frankly we don’t see it that way.” Reiterating prior statements

by President Obama and Secretary Clinton, Steinberg asserted that the administration “welcomes the rise of a successful, strong, and prosperous China that plays a greater role in global affairs.”

Liu Xiaobo award brings human rights to the fore

The award of the Nobel Peace Prize to Liu Xiaobo, a human rights activist who advocated political reforms and the end of communist one-party rule in China, has been a media sensation this quarter, primarily over the battle of wills between Norway and China. Nevertheless, the US role also factored into China’s frustrations. President Obama released a statement in support of Liu only a few hours after the public announcement of the award, describing him as “an eloquent and courageous spokesman for the advance of universal values through peaceful and non-violent means, including his support for democracy, human rights, and the rule of law.” He urged the Chinese government to release Liu from prison “as soon as possible.”

This is not the first time that Liu’s imprisonment and US concern has ruffled feathers in Beijing. News reports on diplomatic cables released by *Wikileaks* this quarter allegedly show that the two governments have been at odds over Liu for years and the US has actively sought his release since his imprisonment in 2008.

Beijing reacted harshly to the decision to award the prize to Liu. It accused the Nobel Committee of using the award as a political tool and maintained that awarding it to a man serving an 11-year prison sentence for state subversion was “profane” and “a desecration of the rule of law.” Chinese officials also hinted that they suspect the US may have had a hand in the decision. In October, when Secretary Clinton met State Councilor Dai, he said that the Chinese government viewed the award as an “American conspiracy to embarrass Beijing.” Such tensions in the US-China relationship, while an on-going irritant, are certainly not new or surprising. Human rights are always on the agenda and as such are a consistent sticking point in bilateral discussions.

Military ties gradually restored

In the first substantive sign that a resumption of the US-China military-to-military relationship is underway, US Defense Secretary Gates and Chinese Minister of National Defense Liang Guanglie held a meeting in Hanoi on the sidelines of the ASEAN Defense Ministers Meeting Plus Eight (ADMM+) in mid-October. The meeting took place 10 months after China suspended military exchanges with the US in response to the Obama administration’s approval of a \$6.4 billion arms sale to Taiwan.

Opening the 50-minute discussion, Minister Liang said that the military relationship constitutes an important part of the overall bilateral relationship, which is of increasing global impact, according to *People’s Daily*. Noting that some problems were present in the cooperation between the two militaries, Liang highlighted that US arms sales to Taiwan are “the biggest obstacle.” He also stressed the need for the two countries to respect each other’s core interests and consolidate strategic mutual trust. Secretary Gates expressed his hope that the military relationship would be determined by mutual interests and responsibilities. He underscored the need for “greater clarity and understanding of each other” which he said was “essential to preventing mistrust, miscalculations and mistakes.”

Gates told reporters that his meeting with Liang was a “good forward step” conducted in a friendly spirit, and noted that he had emphasized his conviction that the dialogue between the two militaries should be sustainable regardless of any ups and downs in the two countries’ relations. Regarding arms sales to Taiwan, Gates said that such sales are political decisions that are made at the White House, not at the Department of Defense, and therefore should not disrupt ties between the US and Chinese militaries.

According to China’s *International Herald Leader*, the topics discussed included: 1) the importance of Sino-US relations and the general situation of overall cooperation, 2) the obstacles to military exchanges, and 3) the broad space for cooperation in fighting terrorism, conducting rescue missions, providing humanitarian relief, providing shipping escorts and cooperating in other nonconventional security fields. In what *People’s Daily* described as a “goodwill gesture to improve military relations between the world’s two powerful countries, Liang invited Gates to visit China in early 2011 and Gates accepted the invitation.

MMCA

A few days after the defense ministers meeting, senior officials from the US Pacific Command and China’s Ministry of National Defense held a two-day plenary session under the US-China Military Maritime Consultative Agreement (MMCA) in mid-October in Honolulu. Marine Maj. Gen. Randolph Alles, director of plans and policy at Pacific Command, was the senior US representative. People’s Liberation Army (PLA) Navy Rear Adm. Liao Shining, a deputy chief of staff of the PLA Navy, led the Chinese delegation. The MMCA talks have taken place intermittently since 1998 to discuss ensuring safety of both countries’ airmen and sailors operating in close proximity to each other. The last MMCA annual meeting was held in 2008. A special MMCA meeting convened in August 2009 to discuss Chinese harassment of US ocean surveillance vessels.

According to *Xinhua*, “The two sides exchanged opinions on their maritime security situation and solutions to maritime security concerns in a ‘substantial’ and ‘candid’ manner.” US Pacific Command said in a statement at the conclusion of the session that the discussion was significant for a “sustained, reliable and meaningful military-to-military relationship.” Maj. Gen Alles described the October talks as “a professional and frank exchange.” The two sides reached agreement on the issues to be addressed in next year’s MMCA working group meetings.

11th Round of Defense Consultative Talks

After a hiatus of 18 months, the Defense Consultative Talks (DCT) were held in Washington DC in mid-December. An agreement to resume the high-level policy talks was reached in September when Deputy Assistant Secretary of Defense for East Asia Michael Schiffer visited Beijing. The 11th round of the DCT was co-chaired by Undersecretary of Defense for Policy Michele Flournoy and Deputy Chief of the PLA General Staff Ma Xiaotian.

Following a full day of discussions, Flournoy gave an upbeat assessment to Pentagon reporters, noting that progress had been made in sharing information on military capabilities. Describing the talks as “positive,” she added that they “form the basis for a more productive relationship

between our two countries and our two militaries over time.” On issues where there was disagreement, Flournoy noted, “we had a very candid, frank and productive exchange.” “The Chinese provided a brief about their defense doctrine and how they view the world and the role of their military in it,” she said, which was “a step forward.” The US delegation provided a brief on the administration’s nuclear posture, ballistic missile and space defense plans, which, according to Flournoy, were the same level of detail as briefs given to the closest allies. Guan Youfei, deputy director of the PLA’s Foreign Affairs Office, described the atmosphere of the talks as “candid and pragmatic” at a separate press conference that was summarized by *Xinhua*.

The bilateral military relationship was a major focus of the talks. For more than a decade, US-Chinese military exchanges have been periodically suspended due to untoward incidents in the overall relationship. The last two times – in October 2008 and January 2010 – Beijing halted exchanges in response to a US arms sale to Taiwan. At the DCT, both sides discussed “how to develop a more durable framework to shift the military-to-military relationship to a more sustained and reliable and continuous footing,” according to Flournoy. Guan said that the two sides had agreed that relations between the two armed forces are “an integral part of bilateral ties” and should be kept “healthy and stable.”

During the talks, Ma Xioatian indicated that while the US and Chinese militaries share a broad range of common interests, there are “problems and hurdles” in their relationship. He cited the main hurdles as “US arms sales to China’s Taiwan province, Congress’ restrictions on military exchanges between the two countries, and US air and sea military surveillance operations in China’s exclusive economic zones.” To ensure that the military-to-military relationship remains on a “stable development track,” Ma insisted that the US and China need to “respect each other’s core interests and major concerns, properly handle differences and sensitive issues, continuously foster and increase mutual strategic trust, and consolidate and expand common interests.

The two sides also discussed maritime safety and regional issues, including North Korea, Afghanistan-Pakistan, Africa, and Iran. Flournoy thanked the Chinese for their support for tightening sanctions against Iran in the UN Security Council.

After the DCT, an announcement was made that Defense Secretary Gates would visit China Jan. 10-14 and that Chen Bingde, chief of the General Staff of the PLA, would visit the US at a mutually convenient time in 2011. Both visits were supposed to have taken place in 2010.

Mixed bag on economics and trade

G20 meeting in Seoul

On Nov. 3, just one week before the opening of the Group of 20 (G20) Summit in Seoul, the US Federal Reserve announced its plan to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. This second round of quantitative easing, known as QE2, was designed to push down long- and medium-term interest rates to encourage consumers to buy, banks to lend, and companies to spend and hire more workers. In addition to provoking criticism domestically, the QE2 had its foreign critics as well, including China. Cui Tiankai, vice foreign minister and a lead negotiator at the G20, questioned the motivations behind the

QE2, saying the US “owes us some explanation.” Vice Finance Minister Zhu Guangyao maintained that the US was “not recognizing the responsibility it should take as a reserve currency issuer, and not taking into account the effect of this excessive liquidity on emerging market economies.” The same day, President Obama refuted criticism of the QE2, saying that “The Fed’s mandate, my mandate, is to grow our economy. And that’s not just good for the United States, that’s good for the world as a whole.”

The QE2 set the US on a collision course with G20 member countries and diverted attention away from the discussion that the US hoped to have in Seoul on how to shift exchange rates from the current “market oriented” rates to “market determined” rates. The US plan to rally multilateral support for its efforts to encourage faster appreciation of China’s currency, the *yuan*, was doomed to failure.

In negotiations over language for the group’s joint statement, the US pushed to include the phrase “competitive undervaluation” to signal a united, strong G20 stance on China’s currency policy. In the end, however, the statement only said that the parties agreed to refrain from “competitive devaluation” of their currencies and move toward market-determined exchange rate systems. While the language was directed at China, its subtlety avoided any direct accusation or specific timelines. When Presidents Hu and Obama met on the sidelines of the G20 Summit, currency dominated their discussion. Hu pledged that China would continue to appreciate its currency, but in an obvious rebuke to Obama’s sense of urgency, he insisted that the process would be gradual and would require a “sound external environment.”

JCCT

The 21st meeting of the US-China Joint Commission on Commerce and Trade (JCCT), which serves as the primary forum in which the US and China engage bilaterally on trade issues and promote commercial opportunities, convened in Washington on Dec. 13-14. Vice Premier Wang Qishan headed the Chinese delegation of roughly 100 officials and co-chaired the meeting with Commerce Secretary Gary Locke, US Trade Representative Ron Kirk, and Agriculture Secretary Tom Vilsack. During the meeting, the US sought greater market access in China and protection of intellectual property. According to a statement by Foreign Ministry spokeswoman, Jiang Yu, China hoped that the JCCT would “expand mutual cooperation and maintain the healthy and stable development of bilateral economic and trade relations.”

The two countries signed agreements in several areas, including investment, agriculture, inspection and quarantine, energy resources, water conservation, and statistics as well as several economic and trade cooperation accords. They also agreed to consider the establishment of a bilateral cooperation framework on intellectual property rights (IPR), and pledged to work together to “ensure the openness, fairness and transparency of the business and investment environment and be open to foreign investment,” according to the joint statement.

Where the G20 had been an overall failure for US economic objectives, the JCCT proved far more fruitful. Secretary Locke described the negotiations as “productive and effective.” According to Locke, “real and substantial” results were achieved and progress made would help reduce bilateral trade imbalances. A Dec. 15 press release from the Department of Commerce,

listed “intellectual property rights (IPR) enforcement, open and neutral technology standards, clean energy, and government procurement” among the US initiatives on which China agreed to cooperate. For instance, China agreed to no longer base its decision to purchase wind power generators from the US on past results with the technology.

China also agreed to resume imports of boneless and bone-in beef from cattle under the age of 30 months, products that have been banned since 2003 due to concerns over mad cow disease. It also agreed to lift its avian influenza bans on poultry imports from Idaho and Kentucky, so long as the products met quarantine requirements. Secretary Vilsack stated that the achievement was of the “utmost importance” for US farmers. The US Department of Agriculture will send a delegation to China in January for further negotiations on beef imports.

China committed to increasing both enforcement of IPR protection and legal software purchases, according to the joint statement, by conducting campaigns to fight IPR infringements and counterfeit products, and actively advancing software legalization.” USTR Kirk maintained that these commitments to IPR “will have systemic consequences for the protection of US innovation and creativity in China.” China also promised to prevent discrimination against foreign suppliers by revising a major equipment catalogue for heavy machinery and other industrial equipment. In addition, China agreed to simplify the process for approving mobile phone product codes and to adjust standards for mobile phone fees. These outcomes will help US businesses’ competitiveness and improve their market-access in China.

Wang Qishan echoed his US counterparts’ upbeat assessment of the talks, calling the JCCT “fruitful” and a “great success.” Through “candid exchanges and dialogues,” he added, China and the US have “enhanced mutual understanding and trust and laid the groundwork for intensive, in-depth, close economic cooperation between the two countries.” However, China’s gains from the dialogue were far less concrete than what it promised the US. Washington acknowledged Chinese concerns and agreed to continue reforming its export control regime and said it would take China’s suggestions and ideas under consideration during this process. In addition, the US would “exercise caution” when taking trade remedy measures against China and promised to observe WTO rules. According to the joint statement, the US would also “seriously consider” Chinese concerns regarding market economy status and would “be ready” for enhanced communications and exchanges with China on this matter to “accelerate the process of recognizing China as a market economy.”

Currency

Just as the JCCT produced some progress on economic issues for the US, the currency issue raised its head again. This time it was in the Senate with the re-emergence of the *Currency Reform for Fair Trade Act*, a House bill that would authorize the Department of Commerce to treat currency undervaluation as an illegal export subsidy under US trade law so that US companies could request a countervailing duty to offset China’s price advantage. The bill had passed in the House in September, but no action was taken by the Senate due to the mid-term elections and voting on other legislation. China had factored heavily in a number of states in the mid-term elections, notably in campaign ads that portrayed China as stealing US jobs. These

sentiments, combined with the need to pass the bill through the Senate this year in order for it to become law, brought on another push from policymakers.

On Nov. 29, Senators Sherrod Brown (OH-D) and Olympia Snowe (ME-R) sent a letter to Senate Majority Leader Harry Reid and Senate Minority Leader Mitch McConnell requesting that the Senate schedule a vote on the bill. As weeks passed and the vote was not scheduled, Brown and Snowe filed the bill as an amendment to the high-priority bill to extend expiring tax breaks. Their strategy failed, however, when the Senate leadership pushed the tax legislation through without permitting amendments to it. “Addressing Chinese currency manipulation is vital to getting our economy back on track,” Brown said in a joint statement with Snowe, who added that the amendment would “make certain our government is prepared to investigate currency manipulation policies and penalize violators of global trade rules.”

Now that the tax legislation has passed, Senate leadership is considering allowing senators to pose amendments, but it is unlikely that any – including the House bill – will pass before the end of the legislative session. If not approved by the Senate during the current Congress, which ends by Jan. 5, 2011, the House bill will die. In order for the new Congress to consider it, the bill must be re-introduced into the House and Senate as a new bill, starting the process all over again.

As the year ended, the *yuan* strengthened above 6.6 per dollar for the first time in 17 years, bringing gains for 2010 to 3.6 percent. Analysts speculated that China would allow the currency to appreciate further in early January in advance of Hu Jintao’s state visit to Washington.

Looking ahead

On Dec. 22, the Obama administration issued a statement announcing that Hu Jintao would visit the White House on Jan. 19 for an “official state visit.” The statement noted that Hu’s visit would “highlight the importance of expanding cooperation between the United States and China on bilateral, regional, and global issues, as well as the friendship between the two countries.” Hu will be hosted for an official state dinner at the White House and will subsequently travel to Chicago. Foreign Minister Yang Jiechi will travel to the US Jan. 3-7 to make final preparations for the visit. Also in advance of Hu’s visit to the US, Defense Secretary Gates will visit China Jan. 10-14.

2009 was an exceptionally smooth year for the US-China relationship, in part because the Obama administration put off actions that were likely to irritate Beijing as part of a strategy of establishing mutual trust and habits of cooperation early to provide a cushion against later tensions. 2010 was especially rocky, beginning with US arms sales to Taiwan and President Obama’s meeting with the Dalai Lama. The two countries butted heads over the South China Sea and US military exercises in the Yellow Sea, and disagreed over how to handle North Korea.

There are reasons to be hopeful that 2011 will see an improvement in relations. Both countries now have realistic expectations and fully understand the other’s priorities, sensitivities, and red lines. Hu Jintao’s visit to the US presents an opportunity to reset the relationship. His trip, combined with the January visit by Secretary Gates to China, could be part of a process to build mutual strategic confidence. To make this a reality, both countries will need to exert efforts.

Chronology of US-China Relations*

October – December 2010

Oct. 8, 2010: President Barack Obama issues a statement welcoming the Nobel Committee's decision to award the Nobel Peace prize to Liu Xiaobo.

Oct. 9, 2010: Zhou Xiaochuan, the governor of China's Central Bank, meets Treasury Secretary Timothy Geithner on the margins of the G20 meeting in Washington.

Oct. 11, 2010: On the sidelines of the ASEAN Defense Ministers Meeting Plus 8 (ADMM+) in Hanoi, US Defense Secretary Robert Gates meets Chinese Defense Minister Liang Guanglie and accepts an invitation to visit China in early 2011.

Oct. 13, 2010: Chinese Vice Premier Wang Qishan converses by telephone with Gary Locke, co-chair of the China-US Joint Commission on Commerce and Trade (JCCT) and US Commerce Secretary, and Ron Kirk, US trade representative.

Oct. 14, 2010: After meeting former Secretary of State Madeline Albright, Chinese Vice Premier Wang Qishan calls for efforts from both sides to safeguard China-US relations.

Oct. 14-15, 2010: A Military Maritime Consultative Agreement (MMCA) meeting is held at US Pacific Command in Hawaii.

Oct. 15, 2010: The US Trade Representative agrees to investigate a complaint by the United Steelworkers union against China.

Oct 16-20, 2010: Charles Bolden, head of the National Aeronautics and Space Administration (NASA), visits China seeking cooperative opportunities between the nations' space programs.

Oct. 18, 2010: Fifth Plenary Session of the 17th Communist Party of China Central Committee announces promotion of Xi Jinping to vice chairman of the Central Military Commission.

Oct. 20, 2010: The People's Bank of China raises benchmark one-year lending rate by 25 basis points to 5.56 percent and the one-year deposit rate by the same margin to 2.5 percent respectively, the first time in almost three years that China has raised interest rates.

Oct. 21, 2010: Attorney General Eric Holder visits China to discuss cooperation on intellectual property rights violations, terrorism, transnational crime, and to promote the rule of law through the US-China Legal Experts Dialogue.

Oct. 22, 2010: US Envoy on Climate Change Todd Stern and Xie Zhenhua, his Chinese counterpart, meet in Beijing but fail to reach any binding agreements.

* Chronology and research assistance by CSIS intern David Silverman

Oct. 23, 2010: During a tour of several US cities, Wang Yi, director of the Taiwan Work Office of the Communist Party of China Central Committee and the State Council Taiwan Affairs Office, meets briefly with Secretary of State Hillary Clinton and other US officials.

Oct. 23, 2010: Speaking about the South China Sea at the Xiangshan security forum in Beijing, Deputy Chief of General Staff of the People's Liberation Army (PLA) Ma Xiaotian says, "We believe the situation in the region is stable and all the passing ships and planes have a sufficient amount of freedom and security."

Oct. 25, 2010: Pentagon spokesman Geoff Morrell reiterates that the *USS George Washington* will operate in the Yellow Sea again and that joint US-ROK naval exercises were "absolutely and categorically ... not scaled back in order to placate Beijing."

Oct. 28, 2010: Secretary of State Clinton delivers a speech in Honolulu in which she says the US is not seeking to contain China and denies that US and Chinese interests are at odds.

Oct. 30, 2010: On Hainan Island, Secretary Clinton meets Chinese State Councilor Dai Bingguo.

Oct. 30, 2010: Secretary Clinton meets Chinese Foreign Minister Yang Jiechi on the margins of the East Asia Summit and receives reassurances on the Chinese government's policy on the export of rare earth minerals.

Nov. 1, 2010: In Phnom Penh, Secretary Clinton calls on Cambodia to maintain a more independent foreign policy and not be overly dependent on any one country.

Nov. 2, 2010: China's Marine Corps holds a major naval exercise in the South China Sea. The live-fire exercises, codenamed *Jiaolong 2010*, include more than 1,800 troops and over 100 ships, submarines, and aircraft.

Nov. 2, 2010: China turns down Secretary Clinton's reported offer to mediate talks between China and Japan over disputed islands in the East China Sea. Foreign Ministry spokesman Ma Zhaoxu calls Clinton's proposal "wishful thinking."

Nov. 4, 2010: Sen. Jim Webb, chairman of the Subcommittee on East Asian and Pacific Affairs of the Foreign Relations Committee, issues a statement criticizing China's "military aggression toward Japan, Vietnam, and other nations over territorial disputes in regional waters."

Nov. 5, 2010: Cui Tiankai, vice foreign minister, says the US proposal for setting caps on nations' current account is a return "to the days of a planned economy."

Nov. 11, 2010: President Obama meets President Hu Jintao on the sidelines of the G20 Summit.

Nov. 17, 2010: Energy Secretary Steven Chu visits China to attend a meeting related to the Sino-US clean energy research center and meets Vice Premier Li Keqiang and State Councilor Liu Yandong.

Nov. 18, 2010: The US-China Economic and Security Review Commission 2010 report claims China Telecom, the state-owned telecommunications operator, “hijacked” 15 percent of the world’s internet traffic, including sensitive encrypted data from the US Senate, the Department of Defense and NASA, in April 2010.

Nov. 18, 2010: On a visit to Washington, State Council Information Office Director Wang Chen meets Under Secretary of State for Public Diplomacy and Public Affairs Judith McHale to discuss strengthening bilateral cooperation in public diplomacy and cultural exchanges.

Nov. 23, 2010: Special Envoy of the Chinese Government for Korean Peninsula Affairs Wu Dawei meets US Special Envoy on North Korea Stephen Bosworth in Beijing.

Nov. 24, 2010: State Department spokesman Phil Crowley says that China is pivotal to moving North Korea in a fundamentally different direction.

Nov. 24, 2010: Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, says that China is “absolutely critical” in dealing with North Korea, saying “It’s very important for China to lead.”

Nov. 24, 2010: In a phone conversation with South Korean President Lee Myung-bak, President Obama says that China should take a more resolute stance on North Korea.

Nov. 25, 2010: State Department issues the *Annual Report on International Religious Freedom* in which China is listed among “countries of special concern.”

Nov. 26, 2010: Secretary Clinton talks over the phone with Foreign Minister Yang Jiechi to discuss the situation on the Korean Peninsula.

Nov. 26, 2010: The US announces upcoming joint military drills with South Korea in the Yellow Sea that include an aircraft carrier battle group, stating that the exercises are not aimed at China, but are intended to deter North Korean aggression.

Nov. 26, 2010: China’s Foreign Ministry spokesman declares that China opposes any military acts in its exclusive economic zone without permission.

Nov. 28, 2010: State Councilor Dai Bingguo calls Secretary Clinton to discuss the situation on the Korean Peninsula.

Nov. 28, 2010: Chinese Envoy Wu Dawei calls for an emergency meeting in Beijing of delegates to the Six-Party Talks.

Dec. 2, 2010: Wang Jiarui, head of the International Department of the CPC Central Committee, meets Deputy Secretary of State James Steinberg. Wang is visiting Washington to attend the Second China-US High-Level Political Party Leaders Dialogue.

Dec. 6, 2010: President Obama phones President Hu to warn that China's muted response to Korean Peninsula tensions is emboldening North Korean provocations, reiterating a June assertion that China was practicing "willful blindness" to DPRK transgressions.

Dec. 6, 2010: 30 US senators send a letter to Chinese Vice Premier Wang Qishan calling for the *yuan* to "appreciate meaningfully" before President Hu's trip to Washington.

Dec. 8, 2010: US House of Representatives approves a resolution congratulating Liu Xiaobo for winning the Nobel Peace Prize and calls on China to release him.

Dec. 10, 2010: Under Secretary of Defense for Policy Michele Flournoy meets Deputy Chief of the PLA General Staff Gen. Ma Xiaotian at the 11th round of US-China Defense Consultative Talks in Washington.

Dec. 13, 2010: A World Trade Organization ruling upholds US duties on Chinese tires put in place last year.

Dec. 14, 2010: Vice Premier Wang Qishan arrives in Washington leading a Chinese delegation to the US-China Joint Commission on Commerce and Trade (JCCT).

Dec. 15, 2010: Deputy Secretary of State Steinberg arrives in Beijing, leading a high-level US delegation for discussions on Korean Peninsula issues.

Dec. 19, 2010: China, the US, and other members of the UN Security Council meet to discuss tensions and events on the Korean Peninsula but fail to agree on a joint statement condemning North Korea's actions.

Dec. 22, 2010: The Obama administration accuses China of illegally subsidizing the production of wind power equipment and calls for discussions at the WTO, the first step in a trade case sought by US steelworkers.

Dec. 28, 2010: PACOM Commander Adm. Robert Willard says that he believes the Chinese anti-ship ballistic missile program has achieved "initial operational capability."