



US-China Relations:
Strains Increase amid Leadership Transitions

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The rare convergence of a US presidential election cycle and China's once-in-a-decade leadership transition caused both countries to focus their energies and attention domestically in the last four months of 2012. The US held its presidential election on Nov. 6 and China held its 18th Party Congress Nov. 8-14. The reelection of President Obama was a relief for Beijing. Although China has plenty of complaints about his policies, it preferred to deal with him for another four year term, both because of the uncertainty that the election of Mitt Romney would have brought to US foreign policy and because the Chinese generally favor the status quo when it comes to US leadership. Washington was simply glad to get the Chinese leadership transition underway since it appeared that Chinese leaders and the bureaucracy were distracted and many decisions had been put on hold pending announcement of the new leadership lineup.

Maritime disputes on China's periphery cause friction

China's maritime disputes with its neighbors in the East China Sea and the South China Sea continued to generate tension between Beijing and Washington. In early September, US Secretary of State Hillary Clinton visited Beijing after stopping in Indonesia, where she called on members of ASEAN to present a united front to China in dealing with territorial disputes in the South China Sea. In response, China urged the US to keep its commitment to remain neutral and to "make efforts that help, rather than harm, regional peace and stability." Clinton met Chinese President Hu Jintao, State Councilor Dai Bingguo, and Foreign Minister Yang Jiechi.

In the joint press conference that Clinton held with Yang, it was apparent that their talks had been contentious. Syria, Iran, cyber security, Korea, as well as the South China Sea were discussed. Once again, Clinton reiterated that the US does not take a position on the competing territorial claims in the South China Sea, but she urged China and ASEAN to engage in a diplomatic process to create a code of conduct in preparation for the upcoming East Asia Summit (EAS). Yang maintained that the sovereignty dispute should be handled through negotiations and consultation among the directly concerned countries. He also insisted that there was a consensus between China and the member-states of ASEAN to act in accordance with the principles and spirit of the 2002 Declaration on the Conduct of Parties in the South China Sea. Clinton and Yang discussed South China Sea issues again when they met on the margins of the United Nations General Assembly meeting in New York later in September.

Underscoring the growing importance of maritime issues to US interests, Assistant Secretary of State Kurt Campbell testified before the Subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relations Committee on Sept. 20 on maritime territorial disputes and sovereignty

issues in Asia. On the South China Sea disputes, Campbell explained that the recent period of heightened tensions had begun in 2007, triggered by increasingly intense demand for natural resources, rapidly improving capabilities to extract resources in deep water, and declining fishing stocks in coastal and inland areas. He reiterated US interests in the South China Sea and stated that the goal of US strategy is to “set a context for peaceful approaches to disputes in the region, with the long-term goal of supporting a rules based order, undergirded by agreements and strong institutions that can support the management and, ultimately, resolution of the disputes.” The South China Sea was a prominent topic of discussion when Campbell met his counterpart Vice Foreign Minister Cui Tiankai in San Francisco on Oct. 23 for the fourth round of the US-China Asia-Pacific Consultations.

At the EAS in Phnom Penh in late November, President Barack Obama’s message on the South China Sea disputes appeared deliberately designed to avoid emboldening US partners Japan, the Philippines, and Vietnam in their disputes with China. Deputy National Security Adviser Ben Rhodes said that the president urged a reduction of tensions, adding that “There is no reason to risk any potential escalation, particularly when you have two of the world’s largest economies – China and Japan – associated with some of those disputes.” In a bilateral meeting between Obama and Wen Jiabao, the US president told Wen that regional hotspot issues should be resolved in a peaceful way and pledged that the US would not take sides on sovereignty and territorial disputes, according to Xinhua.

When several of China’s neighbors became alarmed in November about China’s new passports, which contained a map including disputed territory (which had been issued in May), the US publicly expressed concern, noting that the map had caused tension and anxiety among the states in the region. After raising the matter with Chinese officials, the US State Department spokesman indicated that US concerns were not assuaged and the US pressed China to rethink its new passport based on the negative signal it sent to its neighboring countries. The US also expressed concern and asked for clarification when the People’s Congress of China’s Hainan Province approved new regulations for the management of public order for coastal and border defense that authorized public security units to inspect, detain, or expel foreign ships illegally entering waters under Hainan’s jurisdiction.

Tensions spiked between China and Japan on their territorial dispute in the East China Sea in September after the Noda government in Tokyo purchased three of the five islands that Japan refers to as the Senkakus and China calls Diaoyu, effectively nationalizing them. Foreign Minister Yang declared the action “totally illegal and invalid” and a “gross violation of China’s sovereignty over its own territory.” China immediately dispatched patrol boats to the waters off the disputed islands and in the subsequent weeks and months Chinese surveillance vessels operated almost daily, sometimes sailing in the contiguous waters and at least 18 times entering the 12-mile territorial waters around the islands.

Even before the crisis erupted, the US made its position on the dispute clear. The State Department spokesman stated on Aug. 28 that the US calls the islands the Senkakus, does not take a position on what country has sovereignty over them, but maintains that the islands fall under the scope of Article 5 of the 1960 US-Japan Defense Treaty because they have been under

the administrative control of the government of Japan since they were returned as part of the reversion of Okinawa in 1972.

As tensions mounted along with US concerns that an accident or skirmish could result in escalation, the State Department dispatched a group of former national security officials from both Republican and Democratic administrations in late October to persuade the Japanese and Chinese to shelve the dispute and restore their mutually beneficial bilateral relationship. The group included Harvard Prof. Joseph Nye, former Deputy Secretary of State James Steinberg, former National Security Adviser Stephen Hadley, and former Deputy Secretary of State Richard Armitage. In Beijing, Armitage reportedly warned the Chinese that they should not mistake the US position of refusing to take a position on who has sovereignty over the islands for neutrality. Citing the language of the US-Japan Security Treaty, Armitage told reporters that the US could not be neutral when its ally is a victim of coercion, aggression, or intimidation.

Despite US hopes, Sino-Japanese tensions did not subside. In mid-December, China started flying surveillance aircraft in the airspace over the islands, further escalating an already dangerous situation. The State Department spokesman noted that US officials registered concerns about the flight with the Chinese government and “made clear that US policy and commitments regarding the Senkaku Islands are longstanding and have not changed.”

The US Senate’s move a week prior to add a clause to the 2013 National Defense Authorization Act stipulating that Article Five of the US-Japan Security Treaty applies to the disputed islands prompted China to express “serious concern and firm opposition.” In addition, the Foreign Ministry spokesman called the US-Japan treaty a “product of the Cold War,” and warned that it should not go beyond the bilateral scope nor undermine the interests of a third party.

North Korea’s missile launch

North Korea’s Dec. 12 missile launch posed an early test of US-China relations in the wake of Xi Jinping’s assumption to power in China. Prior to the launch, it was widely believed that Beijing discouraged Pyongyang from once again defying UN Security Council resolutions. When the North Koreans announced on Dec. 1 the two week window later that month for launching a satellite, China’s Foreign Ministry spokesman expressed concern. In a statement that left unclear what actions Beijing would take if Pyongyang proceeded with the launch, the spokesman noted that North Korea “has the right to peaceful uses of outer space,” but also maintained that “the right should be exercised within limitation of UN Security Council resolutions.” This marked the first time that China publicly adopted the position that UNSC resolutions imposed restrictions on North Korea’s launching of satellites. In subsequent days as the launch window approached, the spokesman unusually called on the DPRK directly to “act prudently” in light of those restrictions and the “situation on the Korean Peninsula.”

Prior to Pyongyang’s announcement of the pending launch, China dispatched a delegation to North Korea led by Politburo member Li Jianguo. It is likely that the Chinese delegation was informed of the planned launch during the Nov. 29-30 visit. Whether Beijing exerted any pressure on North Korea to forego the launch is unknown; it is possible that Pyongyang had delayed the launch until after China’s 18th Party Congress. Although China hoped it would not

take place in December, it was probably not willing to do more than verbally discourage the North Koreans. China continues to attach priority to preserving stability in North Korea under its new leader, Kim Jong Un, and desires to maintain close China-North Korean relations while gradually promoting economic reform and opening up in North Korea.

Nevertheless, the US and China consulted closely in an effort to persuade Pyongyang to postpone the launch. On Dec. 7, Secretary of State Clinton had a telephone conversation with Chinese Foreign Minister Yang Jiechi. Asked about that phone call on Dec. 10, China's Foreign Ministry spokesman acknowledged that China had kept in communication with the US and other parties concerning the planned launch. He added that "the Chinese side hopes that relevant parties could look at the big picture and the long-term, handle the current situation in a cool-headed and proper manner so as to avoid further escalation of tension and jointly uphold peace and stability of the Korean Peninsula and the region." He did not repeat the call for North Korea to "act prudently."

After the launch on Dec. 12, which successfully placed an object into outer space, China's Foreign Ministry spokesman reiterated that North Korea has the right to a peaceful space program, but has the obligation to abide by relevant UNSC resolutions. In addition, he noted that China "regrets" the launch – the first time that Beijing has used that word in response to a North Korean rocket launch. The spokesman also urged "all sides concerned" to remain calm and make joint efforts to safeguard peace and stability on the Peninsula. Asked what action the UN Security Council should take, he maintained that the response should be "prudent and appropriate," "conducive to maintaining overall peace and stability of the Peninsula," and "avoid further escalation of the situation." The US National Security Council (NSC) spokesman called the launch a "highly provocative act that threatens regional security, directly violates United Nations Security Council resolutions 1718 and 1874, contravenes North Korea's international obligations, and undermines the global non-proliferation regime." He noted that the US would strengthen and increase close coordination with its allies and partners.

It is unknown whether North Korea gave China advance notice of the launch. An editorial published in the English language edition of *Global Times* stated that North Korea's action proved that "China's strength is not sufficient to influence its neighbor's situation." It also noted that "Strategists in China remain divided as to whether China should adopt a new policy for the Korean Peninsula." The publication of articles in the Chinese media critical of North Korea's launch also suggests that the debate over the implications of North Korea's provocative actions for China and Chinese policy toward North Korea is ongoing. One such article by Lv Chao, research fellow at the Institute of Border Studies, Liaoning Academy of Social Sciences, posted on Huanqiu Wang, stated that "North Korea's satellite launch will bring destabilizing factors to the Korean Peninsula, and this also provides a new excuse for Japan's right wing to build up armaments, amend the constitution, and take other actions."

At the United Nations, the Security Council issued a press statement on Dec. 12 condemning the launch as a "clear violation" of UN resolutions and noting that it would urgently consider "an appropriate response." Reports suggested that the wording of the statement was intensely debated. One council diplomat reportedly said that China's UN Ambassador Li Baodong sought to remove from the original US draft the word "rocket," the phrase "ballistic missile technology"

and a reference to the launch as “undermining regional security.” The statement issued reflected compromise among the various parties: it dropped the word “rocket” and the mention that the launch had undermined regional security, but included the term “ballistic missile technology.”

Although the US, the ROK, and Japan favor a UNSC resolution and the imposition of tighter sanctions on North Korea, it seems doubtful that Beijing will support such actions. After North Korea’s April 13 launch, the US, European Union, Japan and South Korea proposed a list of about 40 North Korean companies and goods to designate for sanctions, but China agreed to only three of them.

Military exchanges: dialogues, exercises and high-level visits

An active agenda of bilateral military dialogues and exchanges took place in the last four months of 2012. The period began with a visit by a Chinese Maritime Safety Administration ship, the *Haixun 31*, to Honolulu on Sept. 7 to conduct a joint search-and-rescue drill with the US Coast Guard. On Sept. 17, the Chinese missile frigate *Yiyang* and the US missile destroyer *Winston Churchill* held their first joint counter-piracy exercise in the Gulf of Aden, off Somalia. The People’s Liberation Army’s (PLA) flagship newspaper, *Jiefangjun Bao*, reported positively on the latter exercise, noting that observers maintained that participants from both sides “have their advantages” and that both sides pledged to strengthen international cooperation in the escort missions to jointly safeguard peace and safety in the Gulf of Aden.

In mid-September, Chinese Defense Minister Liang Guanglie hosted US Defense Secretary Leon Panetta on his first visit to China as Pentagon chief. According to *Xinhua* reports, in their private discussion, Liang and Panetta discussed the bilateral military relationship, US weapon sales to Taiwan, the Sino-Japanese territorial dispute, the rebalancing of US policy toward Asia, the South China Sea, and security in cyber space and outer space. Chinese media also reported that Panetta told Liang that the US goal “is to have the United States and China establish the most important bilateral relationship in the world. And the key to that is to establish a strong military-to-military relationship.” In their joint press conference, Liang called for the US and China to build “a new type of military relations featuring equality, reciprocity, and win-win cooperation in an active and pragmatic way.”

In a speech to Chinese officers and cadets at the PLA’s engineering academy, Panetta explained the shift of the US strategic focus to the Asia-Pacific region and insisted that a “constructive US-China defense relationship complements that vision.” The rebalance is an attempt not to contain China, but to engage it and expand its role in the Pacific, Panetta maintained. He added: “We must be clear-eyed about the challenges and difficulties that we face as two major powers. We will not agree on every issue that comes before us, but we cannot let those disagreements and those challenges blind us to the great opportunities that exist. If we work together, if we cooperate together, we can solve problems together.

Panetta described China as a “key stakeholder” in the international system, and urged cooperation by all Asia-Pacific nations to achieve common objectives in areas like maritime security, humanitarian assistance and disaster relief, and peacekeeping. To promote greater

multilateral cooperation, he said, the US has invited China to send a ship to participate in the 2014 *Rim of the Pacific*, or *RIMPAC*, the world's largest multilateral naval exercise.

During his visit, Panetta stopped in the eastern port of Qingdao and visited the headquarters of the Chinese Navy's Northern Fleet, the first such visit by a US defense secretary. The visit included tours of several ships, including the frigate *Yantai*, the vessel that had participated in the joint counter-piracy operations with the US in the Gulf of Aden, and the conventionally-powered *Great Wall 197* submarine.

Additional military exchanges and drills took place from October to December. A delegation of the US Army military band visited China, performing jointly with the PLA military band in Beijing, Nanjing, and Shanghai. US Secretary of the Navy Ray Mabus traveled to China in late November. He held talks in Beijing with Gen. Liang Guanglie and Commander of the Chinese Navy Adm. Wu Shengli, and toured two ships and a submarine in the eastern port of Ningbo. A US-China joint humanitarian assistance and disaster relief exercise was held in Chengdu, the capital of Sichuan province. In early December, PLA Vice Adm. Zhang Yongyi met Vice Chief of Naval Operations Adm. Mark Ferguson at the Pentagon.

Both working-level and high-level dialogues were convened that advanced the US-China military relationship. In late September, the US and Chinese militaries held an annual meeting in Qingdao under the US-China Military Maritime Consultative Agreement, which seeks to strengthen maritime safety. On Oct. 10, a PLA delegation visited Washington for the Defense Policy Consultative Talks (DPCT) to discuss the US-Chinese military exchange agenda for 2013 and to lay the groundwork for the higher-level Defense Consultative Talks (DCT), which took place on Dec. 12. The 13th DCT was co-chaired by Under Secretary of Defense for Policy James Miller and Lt. Gen. Qi Jianguo, who was recently appointed deputy chief of the PLA General Staff. A Pentagon news release noted that both sides "emphasized the positive momentum of the US-China military-to-military relationship this year, and urged further cooperation in 2013." Topics on the agenda included maritime security in the East China Sea and South China Sea, North Korea's missile launch, the US rebalance to the Asia-Pacific region, the security situation in the Middle East, Afghanistan and Pakistan, and avoiding miscalculation in the areas of cyber, space, nuclear policy, and missile defense.

Chinese suspicions of US strategic intentions grow

Strains in the relationship were clearly signaled in early September during Secretary of State Clinton's visit to China. Striking an unusually discordant tone, Chinese Premier Wen Jiabao stated that "Generally speaking, Sino-US ties are still proceeding. But I have had some worries recently." Wen added: "China and the US should maintain mutual political respect and mutual strategic trust. The US should respect China's sovereignty and territorial integrity, and take notice of China's core interests and public sentiment."

Beijing's worries about US rebalancing to Asia continued to increase in the final months of 2012, even as the US provided repeated explanations about the strategy and offered assurances that it was not targeted at China. China's unease grew over Washington's strengthening ties with its neighbors, especially members of ASEAN. Agreement between the US and Japan to deploy a

second early warning radar in southern Japan heightened Chinese concerns about US efforts to counter Chinese military power, despite assertions by the State Department that missile defense in Asia is defensive and aimed at intercepting missiles only from North Korea.

A slew of articles in the Chinese media criticized the US pivot to Asia. For example, an article published in *Liaowang* cited efforts by the US to ease China's misgivings through successive visits to China by Secretary Clinton, National Security Advisor Tom Donilon, and Defense Secretary Panetta. Describing China's attitude of "listening to what they say, while watching what they do," the author, Jia Xiudong, noted the accelerated pace of US military deployments to the region and stepped-up US consultations with the Philippines, Singapore, Vietnam, and Japan on military access arrangements. "Obviously," Jia concluded, "the most important background factor for the US Asia-Pacific strategic adjustment is China's rise."

18th Party Congress and the leadership transition

The 18th Party Congress convened in Beijing Nov. 8-14, 2012, bringing roughly 2,300 representatives to the capital. The meeting opened with the government's Work Report, a comprehensive review of the Party's work over the past five years and policy guidance for the incoming leadership delivered by Hu Jintao, and closed with the announcement of the final personnel decisions on the much-awaited leadership transition.

The Work Report, which was drafted by a team of senior Party cadres headed by Xi Jinping, underscored the myriad domestic challenges that China faces and asserted that China "must aim higher and work harder and continue to pursue development in a scientific way, promote social harmony and improve the people's lives" in order to meet those challenges. Of particular importance was the "serious challenge" of combating corruption. If left unaddressed, the threat "could prove fatal to the party, and even cause the collapse of the party and the fall of the state." The Work Report also stressed the need to ensure economic development is "more balanced, coordinated and sustainable." To this end, pursuing structural economic reforms and systemic political reforms would not only improve domestic governance, but also bolster Beijing's legitimacy. Other guidance provided through the report included improving the government's efficacy and responsiveness, expanding social services in order to promote social stability, and maintaining the pace of Chinese military modernization.

The foreign policy section of the Work Report reaffirmed the Chinese leadership's desire to defend the country's expanding interests, and urged increased efforts to shape international norms so as to encourage the development of an international community more responsive to Chinese interests. Also noteworthy were calls to leverage developing powers to promote reform of the international order and to establish a "new type of great power relations" among the major powers. In a section on protecting resources, the Work Report for the first time defined China as a "maritime power" that will "firmly uphold its maritime rights and interests."

There were few surprises in the announcement of the key personnel arrangements. The Politburo Standing Committee, the Chinese Communist Party's top decision-making body, was cut from nine to seven members, which has raised hopes of greater unity and efficiency. Xi Jinping succeeded Hu as CCP general secretary and Li Keqiang was chosen as the next premier, a

position he will assume at the National People's Congress (NPC) in March 2013. Besides Xi and Li, the members of the elite committee are Zhang Dejiang (NPC chairman), Yu Zhengsheng (chairman of the Chinese People's Consultative Conference), Liu Yunshan (executive secretary of the Party Secretariat), Wang Qishan (head of the Central Commission for Discipline Inspection) and Zhang Gaoli (executive vice premier). The new lineup included mostly people loyal to Jiang Zemin, demonstrating the persisting influence of the 86-year-old former Party chief. Perhaps the only unexpected decision was Xi Jinping's appointment as head of the Central Military Commission. Both Deng Xiaoping and Jiang Zemin had retained that post for two years after stepping down from the head of the party, using it to keep exercising substantial power and influence. It was uncertain whether Hu Jintao had willingly abdicated the position or was forced to give it up.

In acknowledgement of the Chinese leadership transition, President Obama sent a message to Xi Jinping, congratulating him on his election as CCP general secretary. He recalled Xi's successful visit to the United States in February, and noted that he looked forward to working together "in the years ahead to continue building a cooperative partnership that benefits both of our peoples and advances peace and prosperity, especially through practical cooperation on regional and global economic and security challenges."

US-China economic and trade relations

Autumn 2012 opened with tense US-China bilateral spats at the World Trade Organization (WTO). In mid-September, China filed a trade complaint, challenging a new US law which allowed the Department of Commerce to impose countervailing duties on imports from non-market economies such as China and Vietnam. A month later, the WTO barred China from imposing its own duties on various US steel exports, thus siding with Washington in its dispute with Beijing.

Agitation over trade issues between Washington and Beijing only grew more pronounced as tensions brewed between China's Ministry of Commerce on one side, and the US Department of Commerce and the US International Trade Commission (USITC) on the other. On Oct. 10, the US Department of Commerce issued its final decision on a long-standing trade dispute with Beijing, and imposed tariffs on most imported Chinese solar panels. The tariffs ranged from 24 to 36 percent, but were still lower than those announced earlier in the year. China's Ministry of Commerce subsequently voiced strong dissatisfaction with the US Commerce Department's decision, saying that it "signals protectionism" and "hinders the development of new energy." On Nov. 16, China's Ministry of Commerce extended a November 2011 anti-dumping probe on coated white cardboard imported from the US for another six months to May 18, 2013. Later in November, the Ministry announced it was also opening an anti-dumping and countervailing duty investigation into solar grade polysilicon imports from the US, EU, and South Korea. While Chinese officials and industry executives pointed to the fact that the imports had been hurting domestic Chinese industry in both cases, Chinese media outlets consistently drew linkages between the investigations and the US Commerce Department's actions in October.

Throughout the fall months, the USITC consistently voted in favor of maintaining US Commerce Department antidumping measures and investigations, including against Chinese hardwood and

decorative plywood, honey, Chinese gift boxes, solar panels, and silica bricks. These rulings were harshly criticized by the Chinese Ministry of Commerce, which consistently urged the United States to abide by its commitments to maintain a “free, open and just international trade environment” and avoid the adoption of protectionist measures.

A potential further slide in economic ties was averted when the US opted to postpone issuing its semi-annual Report on International Economic and Exchange Rate Policies to Congress until after the US elections. Despite Republican candidate Mitt Romney’s pledges that if elected he would label China a currency manipulator on his first day in office, the Obama administration chose to once again refrain from taking that step. Consistent with past reports, the November report noted Chinese actions to encourage the yuan’s appreciation and called for Beijing to move toward a more market-determined exchange rate.

Trade friction nevertheless increased on the eve of the 23rd US-China Joint Commission on Commerce and Trade. Talks in the Chinese solar power industry ran up against another obstacle when the US Commerce Department set anti-dumping and countervailing duties on Chinese wind turbine towers. The US move prompted vigorous protest from China’s Ambassador to the WTO Yi Xiaozhun, who called the move “abuse” of anti-dumping and countervailing laws, and claimed that the US was blocking Chinese access to the solar market for “ideological reasons.”

US-China JCCT Talks

On Dec. 18-19, the 23rd US-China Joint Commission on Commerce and Trade (JCCT) talks were held in Washington. In his final appearance as vice premier in charge of economic issues, Wang Qishan headed the Chinese delegation. US Trade Representative Ron Kirk and Rebecca Blank, acting US commerce secretary, served as the meeting’s US co-chairs. Other US participants included Secretary of Agriculture Tom Vilsack, Ambassador to China Gary Locke, Trade and Development Agency Director Leocadia Zak, and representatives from the State and Treasury Departments. On the Chinese side, senior officials from 25 ministries and agencies were in attendance.

Expectations for progress at the JCCT were low, in part due to the unfinished leadership transition in China, but also perhaps because of the mounting bilateral trade and economic disputes. Prior to the meeting’s commencement, Agriculture Secretary Vilsack stated that the US hoped to see some forward movement on several issues, but acknowledged that any progress would be “incremental” and “slow.”

Nevertheless, incremental progress was achieved. China and the US agreed to the following: 1) to conduct consultations on government procurement practices through both the Government Procurement Agreement (GPA) framework and bilateral dialogues, focused on projects for public service and on the entities that procure in the public interest; 2) to convene the 2013 Legal Exchange in the United States; 3) to continue close communication and exchange through existing channels to promote development of solutions to the issue of bad faith trademark registrations; 4) to expand the existing trade statistics reconciliation exercise to include services, and exchange statistical data and information on coverage, definitions, and methodologies to support this effort; 5) to hold a technical dialogue in Spring 2013 to discuss approaches to

improving cyber security in critical infrastructure; and, 6) with regard to a joint exchange on administrative licensing rules launched in April 2012, to continue their work on this issue into 2013 with the intent of facilitating commercial activity impacted by administrative licensing. Additionally, the US Department of Agriculture (USDA) and China's Ministry of Agriculture made a joint commitment to a biotechnology pilot program. Independently, the USDA also reaffirmed access for pears in the Chinese marketplace by way of a reciprocal trade commitment between the two countries beginning in 2013.

China also separately agreed or committed to publish a judicial interpretation on internet intermediary liability prior to the end of the year, building upon a pre-existing JCCT commitment; to not mandate any particular encryption standard for commercial 4G Long Term Evolution (LTE) telecom equipment; to engage in discussions with the US on measures related to fleet planning associated with the civil aviation industry; to take into account comments from the US on the issue of medical device pricing, and to treat foreign and domestic manufacturers equally; and to define a new chemical entity in a manner consistent with international research and development practices.

Representatives from both the US and China agreed to "take full advantage" of the JCCT platform in order to improve bilateral cooperation and create positive momentum for bilateral economic and trade relations. Chinese Vice Premier Wang described the two economies as "interdependent and inseparable" and emphasized that "neither can thrive without the other." He described the talks as "effective and fruitful," comments echoed by US Trade Representative Ron Kirk, who claimed the JCCT had become "one of the pillars of the stability in the relationship." However, while the talks demonstrated the countries' commitment to work together to resolve trade issues, Kirk also noted that "real success" would only be possible if both sides could deliver "tangible results."

Huawei and ZTE: misunderstood telecom or security concern?

Huawei Technologies Co. Ltd, the second largest telecommunications equipment manufacturer in the world, and a smaller Chinese telecom company, ZTE Corp., fell under heavy US criticism in the fall. Representatives from both companies in early September and late August respectively had announced that they intended to testify before the US House Committee on Intelligence regarding the alleged security and intelligence threat their operations in the US posed. In mid-September, the Committee held a hearing and representatives from both companies adamantly denied Chinese government control over the companies as well as any involvement in cyber espionage or hacking attacks.

On Oct. 8, the US House Committee on Intelligence issued a report recommending the federal government block mergers of US firms with Chinese telecoms Huawei and ZTE. The Committee stated that based on a year-long investigation, it had reached the conclusion that the two Chinese companies' efforts to extract information from US companies and their loyalties to Beijing posed a national security threat to the United States. The report stated that the Committee had obtained significant evidence that would cast doubt on both companies' innocence, including internal documents from former Huawei employees that proved it had provided telecom services to the "cyber warfare" unit within the Chinese PLA; evidence of economic espionage which

would soon be turned over the Federal Bureau of Investigation; and statements by former and current Huawei employees that the company had committed “potential violations” concerning immigration, bribery, corruption, and copyright infringement within the US.

In response, the Chinese Ministry of Commerce stated it “strongly oppose[d]” the Committee’s report. Ministry spokesman Shen Danyang claimed the report was drafted out of “suspicion and false basis” and argued that the Committee’s actions ran “contrary to the free market rules the United States has consistently advocated.” Chinese media also lashed out against the report, arguing that its findings were unfounded and not credible, charging Committee members with China-bashing, misplaced protectionism, and politicizing the issue. Chinese media later widely circulated a report citing US Ambassador Terry Kramer, the head of the US delegation for the World Conference on Information Telecommunications (WCIT), stating during a news conference in Beijing that the report released by the House Committee regarding Huawei and ZTE did not represent a “final conclusion” on the issue.

Throughout November, tensions continued to mount on the issue of cyber security. The Chinese Foreign Ministry waded into the fray on Nov. 1 when its spokesman Hong Lei refuted US intelligence community’s accusations that Chinese firms had hacked into US companies’ computer systems to steal commercial secrets. Two weeks later, the US-China Economic and Security Review Commission (USCC) released its own annual report to Congress and cyber security was a key component. According to the report, China now poses “the most threatening actor in cyberspace” and its cyber espionage efforts have become “increasingly creative and resourceful targeting” across multiple sectors. China’s Foreign Ministry spokesman condemned the USCC report’s findings and its recommendation for an in-depth assessment of Chinese cyberattack capabilities as “indulging in a Cold War mentality.”

Looking ahead to 2013

2012 was a difficult year for China-US relations, with heightened tensions on a number of issues. Both sides recognize that there is a lack of mutual strategic trust and have misgivings about the other country’s strategic intentions. Yet, both also appreciate the critical importance of the US-China relationship to regional and global peace and stability and will likely continue to seek to resolve problems, manage differences, and cooperate where interests overlap. A similar pattern of tension comingled with cooperation is likely in the coming year.

An early meeting in 2013 between Xi Jinping and Barack Obama would be advisable to set a positive tone, reaffirm US and Chinese shared commitment to cooperation, and perhaps establish a new consensus for the bilateral relationship. The US and China have been discussing the meaning of a “new type of major power relations,” first proposed by Xi during his visit to the US last February. Reaching an understanding on this concept along with a plan to implement it would be a worthwhile objective. Since Xi will not become president of China until the National People’s Congress in the spring, China-US ties may be adrift in the coming months. Unless a visit by President Obama to China is planned for the spring or summer, the first scheduled opportunity for the two leaders is at the G20 meeting in St. Petersburg in September.

It is likely that the US-China Strategic and Economic Dialogue will continue, though tweaks may be made to streamline the mechanism so it is more effective and efficient. It is important that the Strategic Security Dialogue, which brings together civilian and military officials to discuss sensitive security matters, not only continue, but be held more frequently than once a year. An active agenda for US-China military exchanges has already been agreed upon.

For both Xi and Obama, domestic priorities are likely to occupy most of their time in the coming year. The US needs to get its fiscal house in order, reduce unemployment, and manage rising healthcare costs among other challenges. China also has a long list of pressing issues, including the need to shift to a consumption-driven economy, provide better governance, reduce corruption, and reverse environmental degradation. If both sides can begin to effectively address their respective domestic problems, the chances of improving bilateral ties will increase commensurately.

Chronology of US-China Relations* **September – December 2012**

Sept. 3-15, 2012: US Special Representative for Global Intergovernmental Affairs Reta Jo Lewis travels to Beijing, Chengdu, and Guangzhou.

Sept. 4-5, 2012: US Secretary of State Hillary Clinton visits Beijing and meets Foreign Minister Yang Jiechi and President Hu Jintao. Noticeably, Clinton does not meet with Hu Jintao's presumed successor, Vice President Xi Jinping.

Sept. 5, 2012: Secretary of State Clinton expresses "disappointment" with China and Russia for blocking UN Security Council calls for stronger intervention in Syria.

Sept. 5, 2012: Huawei Technologies announces it is negotiating conditions under which it will testify before the US Congress regarding alleged security threats it poses.

Sept. 6, 2012: Secretary of State Clinton states that the US will not back away from differences with China over Syria and the South China Sea.

Sept. 7, 2012: A Chinese Maritime Safety Administration ship visits Honolulu to conduct a joint search and rescue exercise with the US Coast Guard.

Sept. 10, 2012: During her visit to China, Deputy Secretary of Homeland Security Jane Holl Lute and Chinese State Councilor and Minister of Public Security Meng Jianzhu agree to launch an annual dialogue mechanism between the two ministries.

Sept. 11, 2012: Director of the US Office of National Drug Control Policy Gil Kerlikowske and Chinese State Councilor and Minister of Public Security pledge to enhance US-China cooperation in drug control.

* Chronology and research assistance by CSIS interns Shirlene Yee and Ryan Pope.

Sept. 12, 2012: China's Foreign Ministry condemns the attacks on the US Consulate in Libya.

Sept. 12, 2012: In the US House of Representatives, the Committee on Foreign Affairs holds an oversight hearing titled, "Beijing as an Emerging Power in the South China Sea."

Sept. 17, 2012: Secretary of Defense Leon Panetta arrives in Beijing on his first visit to China as Pentagon chief.

Sept. 17, 2012: China files a trade complaint with the WTO to challenge a new US law allowing the Commerce Department to levy countervailing duties on imports from non-market economies which it believes are subsidized.

Sept. 17, 2012: A US guided-missile destroyer and other US Navy assets join with the Chinese frigate *Yi Yang* to conduct the joint anti-piracy drill in the Gulf of Aden.

Sept. 18, 2012: Secretary of Defense Panetta and Chinese Defense Minister Liang Guanglie announce China's participation in the US-hosted *2014 Rim of the Pacific Exercise (RIMPAC)*, the world's largest international maritime exercise.

Sept. 20, 2012: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell testifies before the Senate Foreign Relations Committee Subcommittee on East Asian and Pacific Affairs regarding "Maritime Territorial Disputes and Sovereignty Issues in Asia."

Sept. 26-27, 2012: Under Secretary of Treasury for International Affairs Lael Brainard visits China to discuss US and global economic developments and China's efforts to strengthen domestic demand-led economic growth.

Sept. 27, 2012: Secretary of State Clinton meets Foreign Minister Yang Jiechi on the sidelines of the 67th session of the UN General Assembly where they discuss disputes in the East China Sea and South China Sea.

Sept. 27-28, 2012: US and Chinese militaries hold an annual meeting under the Sino-US Military Maritime Consultative Agreement in the northern port city of Qingdao.

Sept. 29, 2012: President Barack Obama issues an executive order revoking a Chinese firm's purchase of four wind farms in Oregon citing national security concerns.

Oct. 8, 2012: US Congressional House Permanent Select Committee on Intelligence issues a report recommending the federal government to block mergers of US firms with Chinese telecoms, Huawei and ZTE.

Oct. 9, 2012: Shen Danyang, spokesman for China's Ministry of Commerce, states that China "strongly opposes" the US report regarding Chinese telecom companies Huawei and ZTE.

Oct. 10, 2012: US-China Defense Policy Consultative Talks take place at the Pentagon.

Oct. 10, 2012: As part of a long-standing trade dispute with Beijing, US Commerce Department imposes tariffs on most solar panels imported from China.

Oct. 11, 2012: China's Ministry of Commerce voices strong dissatisfaction with the US Commerce Department's decision to impose tariffs on Chinese solar panels.

Oct. 11, 2012: China's Foreign Ministry spokesman criticizes the annual report issued by the US Congressional-Executive Commission on China regarding the human rights situation in China.

Oct. 15, 2012: Shanghai New York University, the first institution of higher education jointly established by China and the United States, is officially founded.

Oct. 16-17, 2012: Deputy Secretary of State William Burns visits China, the fourth senior US official to visit China this year.

Oct. 20, 2012: Delegation of former security officials, led by former National Security Adviser Stephen Hadley arrives in China on a semi-official visit after stopping in Tokyo and Seoul.

Oct. 23, 2012: Fourth round of US-China Asia-Pacific Consultations is held in San Francisco, co-chaired by Assistant Secretary Campbell and Vice Foreign Minister Cui Tiankai.

Oct. 25, 2012: Ambassador Terry Kramer, head of the US delegation for the World Conference on Information Telecommunications (WCIT), states at a news conference in Beijing that the report released by the House Intelligence Committee regarding Huawei and ZTE does not represent a "final conclusion" and is not the position of the administrative branch.

Oct. 25, 2012: Chinese Defense Ministry spokesman Yang Yujun condemns the joint US-Japanese military exercises in Okinawa. Yang also announces the US and China will hold joint drills on humanitarian rescue operations and disaster relief in Chengdu in November.

Oct. 27-Nov. 5, 2012: A delegation of the US Army military band visits China; they stage joint performances with the PLA military band in Beijing, Nanjing, and Shanghai.

Nov. 1, 2012: Foreign Ministry spokesman Hong Lei refutes US intelligence agency accusations that Chinese firms hacked into US companies' computer systems and stole commercial secrets.

Nov. 6, 2012: Barack Obama is re-elected president of the United States.

Nov. 7, 2012: President Hu Jintao and Premier Wen Jiabao congratulate President Obama and Vice President Joe Biden on their re-election, noting the "positive" achievements in relations during the past four years.

Nov. 9, 2012: US International Trade Commission votes in favor of the US Commerce Department's tariffs and countervailing duties against Chinese solar panel imports.

Nov. 8, 2012: Chinese Communist Party (CCP) opens the 18th Party Congress.

Nov. 14, 2012: 18th Party Congress elects the Chinese Communist Party's Central Committee.

Nov. 14, 2012: US-China Economic and Security Review Commission releases its 2012 report.

Nov. 15, 2012: CCP announces the new seven-member Politburo Standing Committee.

Nov. 15, 2012: Chinese Foreign Ministry spokesman condemns the US-China Economic and Security Review Commission's recommendation for an in-depth assessment of Chinese cyber-attacks against the US and characterizes it as "indulging in a Cold War mentality."

Nov. 15, 2012: President Obama sends a message to President Hu Jintao acknowledging Hu's contributions to improving US-China relations and stating his continued support for building a cooperative relationship between the US and China.

Nov. 16, 2012: China's Ministry of Commerce extends an anti-dumping probe on coated white cardboard imported from the US for another six months to May 18, 2013.

Nov. 16, 2012: US International Trade Commission (USITC) votes to continue the Commerce Department's investigations against imports of hardwood and decorative plywood from China.

Nov. 19, 2012: USITC votes to keep in place anti-dumping duties on Chinese honey despite calls by the Chinese Ministry of Commerce to lift them.

Nov. 20, 2012: President Obama meets Premier Wen Jiabao on the sidelines of the East Asia Summit to discuss regional security, economic, and trade issues.

Nov. 25, 2012: Chinese state media reports that the Chinese Navy successfully landed fighter jets on the *Liaoning* aircraft carrier.

Nov. 26, 2012: Foreign Ministry spokesman Hong Lei announces that China will make a partial submission to the UN Commission on the Limits of the Continental Shelf on China's claims to a continental shelf that extends beyond 200 nm in the East China Sea.

Nov. 26, 2012: Chinese Ministry of Commerce announces it is beginning anti-dumping and countervailing investigations into imports of solar grade polysilicon from the US, European Union, and South Korea.

Nov. 27, 2012: US Secretary of the Navy Ray Mabus meets Defense Minister Liang Guanglie in Beijing to discuss security at sea and Washington's moves to bolster its military presence in the Asia-Pacific region.

Nov. 28, 2012: US Department of the Treasury releases its Semi-Annual Report to Congress on International Economic and Exchange Rate Policies which does not label China a currency

manipulator but instead emphasizes China's actions to appreciate its currency and move to a more market determined exchange rate.

Nov. 29, 2012: US Senate approves the Webb Amendment to the National Defense Authorization Bill for fiscal 2013, which stipulates that Japan has administrative control over the Senkaku Islands and that US obligations under article Five of the US-Japan Treaty of Mutual Cooperation and Security apply to the islands.

Nov. 29-30, 2012: A joint China-US humanitarian assistance and disaster relief military exercise is held in Sichuan Province's capital city, Chengdu.

Dec. 3, 2012: US Securities and Exchange Commission begins administrative proceedings against Chinese affiliates of Deloitte & Touche, Ernst & Young, Pricewaterhouse Coopers, BDO and KPMG for refusing to release audit work papers.

Dec. 5-12, 2012: Wang Jiarui, minister of the CCP Central Committee's International Department, visits the US as part of the East-West Institute's fifth US-China High-Level Political Party Leaders Dialogue.

Dec. 6, 2012: Vice Chief of Naval Operations Adm. Mark Ferguson meets Vice Commander-in-Chief of the PLA Navy Vice Adm. Zhang Yongyi at the Pentagon to discuss US-China military-to-military relations.

Dec. 7, 2012: Secretary of State Clinton has a phone conversation with Foreign Minister Yang Jiechi about North Korea's declared intention to launch a satellite.

Dec. 11, 2012: Vice Premier Wang Qishan meets Under Secretary of International Affairs for the US Treasury Lael Brainard and exchanges views on China-US economic relations and the world economic situation.

Dec. 12, 2012: Deputy Chief of the PLA General Staff Headquarters Qi Jianguo and Under Secretary of Defense for Policy James Miller co-chair the 13th annual Defense Consultative Talks at the Pentagon.

Dec. 18, 2012: US Commerce Department sets anti-dumping and countervailing duties on Chinese wind turbine towers. China's Ambassador to the WTO Yi Xiaozhun issues a protest.

Dec. 18-19, 2012: The 23rd US-China Joint Commission on Commerce and Trade is held in Washington.

Dec. 28, 2012: USITC votes in favor of continuing the US Department of Commerce's anti-dumping probes on imports of silica bricks and shapes from China.