



US-China Relations:

Xi Visit Steadies Ties; Dissident Creates New Tensions

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China's next leader, Xi Jinping, traveled to the US for a familiarization visit that went smoothly and laid the foundation for a strong bilateral relationship after the 18th Party Congress this fall. Senior US and Chinese officials delivered speeches at events to mark the 40th anniversary of Nixon's visit to China in 1972 highlighting the progress made and the importance of the bilateral relationship to both countries while recognizing the deep mutual strategic mistrust that hampers cooperation. As the US pivot to Asia gained steam and friction between the US and China increased, the third Asia-Pacific Consultation was held to manage suspicions and enhance cooperation. President Obama met Hu Jintao on the sidelines of the Seoul Nuclear Security Summit and coordinated planned responses to North Korea's satellite launch. Friction increased on the trade front with the filing of a formal complaint with the WTO by US, Japan, and the EU that charged China with keeping prices of rare earth elements low for domestic manufacturers. Beijing angered the Obama administration at the UN Security Council by vetoing a resolution in early February that called for Syria's president to step down. But as the violence worsened, the Council passed a resolution in mid-April that authorized observers to monitor the ceasefire. China rebuffed US entreaties to reduce its oil imports from Iran and the US imposed sanctions on a Chinese company for selling refined oil to Iran. At the end of April, a Chinese dissident escaped from house arrest and sought assistance by entering the US Embassy, creating potential major challenges for the Sino-US relationship.

Blind, "barefoot" lawyer seeks refuge

On April 26, just days before the arrival of a huge US delegation led by Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner for the fourth Strategic and Economic Dialogue (S&ED), Chinese dissident Chen Guangcheng made a dramatic escape from house arrest and sought refuge in the US Embassy in Beijing. Known as China's "barefoot" lawyer, Chen is blind and self-taught. He had been imprisoned for 51 months for championing the rights of women who were forced to undergo abortions and sterilizations. His case had been raised repeatedly by high-level US officials with Beijing. In a video that was posted on *YouTube* and widely circulated, Chen demanded that Prime Minister Wen Jiabao appoint an investigation team, punish officials who beat his family, ensure the safety of his family, and root out corruption.

Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell departed for Beijing three days earlier than planned to negotiate a solution to the crisis that strikes a balance between supporting human rights and preserving a cooperative relationship with China. Asked about the case, President Barack Obama urged China to improve its record on human rights, but

refused to comment specifically on the details. “It is our belief that not only is that the right thing to do, because it comports with our belief in freedom and human rights, but also because we actually think China will be stronger as it opens up and liberalizes its own system,” Obama said as he appeared with Japanese Prime Minister Noda Yoshihiko at the White House. “We want China to be strong and we want it to be prosperous.”

A Chinese Foreign Ministry spokesman expressed strong dissatisfaction for the “irregular way” that the US took Chen Guangcheng into custody, calling the action “interference in China’s domestic affairs.” He demanded an apology, an investigation of the incident, actions to deal with those responsible, and assurances that such an incident would not recur. “The US side should reflect on its politics and practices, and take practical actions to uphold the overall situation of Sino-US relations,” the spokesman asserted.

Chen left the embassy on his volition on May 2, bringing an end to the potential crisis in Sino-US relations. A US official explained on background that the resolution was based on a number of understandings including that Chen will be treated humanely while he remains in China, he will be relocated to another province and be permitted to attend university, and China will investigate reported extra-legal activities committed by local Shandong authorities against Chen and his family members. In addition, the US official noted that Washington would take a continuing interest in the well-being of Chen and his family, including periodic visits to confirm that the commitments he has received are carried out. The resolution of the case, the US official noted, was pursued in “a manner consistent with American values and our commitment to human rights, and in the context of a cooperative US-China partnership.”

The deal quickly fell apart, however. Once in the hospital, Chen felt scared and abandoned and his wife and fellow activists helped convince him that he and his family would be in danger if they stayed in China. US officials scrambled to piece together a new arrangement that would allow Chen to travel to the US on a student visa and study law New York University. The Chinese government issued a statement indicating that Chen could apply for a visa to study abroad just like any other Chinese citizens. Details about how long it would take for Chen and his family to leave China were left to be worked out, but it appeared that the deal would hold. China’s government was able to save face and President Obama would likely not be weakened domestically by criticism that his administration had rushed a flawed solution.

Deal with Congress may lead to Taiwan arms sale

In a one-two punch to the US-China relationship, the same day that the US press reported that Chen Guangcheng fled to the US Embassy, the White House released a letter to Sen. John Cornyn that was clearly part of a deal with Cornyn to lift his hold on Senate confirmation of Mark Lippert as assistant secretary of defense for Asian and Pacific security affairs in return for giving “serious consideration” to selling Taiwan *F-16C/D* fighter jets as well as upgrading its fleet of *F-16A/B* jets. The letter stated that the administration is “mindful of and share[s] your concerns about Taiwan’s growing shortfall in fighter aircraft” and asserted that Lippert, “in consultation with the inter-agency and the Congress, will play a lead role as the Administration decides on a near-term course of action on how to address Taiwan’s fighter gap, including through the sale to Taiwan of an undetermined number of new US-made fighter aircraft.”

The wording was unquestionably cleared by White House lawyers, who maintained the language did not obligate the administration to sell new fighters to Taiwan. Members of Congress may interpret the letter as a pledge to do just that, however. Beijing did not comment on the letter, but will undoubtedly be worried about the possibility of another arms sale to Taiwan.

Washington rolls out the red carpet for Xi Jinping

In a carefully scripted effort to lay the foundation for the next decade of relations between the United States and China, Vice President and heir apparent Xi Jinping, toured the US for five days in February. At his first stop in Washington DC, he was received in the Oval Office by President Obama, met leading members of Congress, held talks with his host Vice President Joe Biden and Secretary of State Hillary Clinton, was feted at a lavish luncheon on the eighth floor of the State Department, visited the Pentagon, engaged US business leaders, and delivered a speech to a large gathering of representatives from the academic, think tank, and business communities in favor of closer US-China relations.

At his second stop of the visit in Iowa, Xi reminisced with residents of Muscatine about his visit 27 years earlier when he was an official in the pig-farming province of Hebei. He toured a 4,000-acre farm outside Des Moines where he climbed into a John Deere tractor and received a toy tractor as a gift. In California, Xi made a stop at the port of Los Angeles, attended a trade conference, visited a suburban school with Vice President Biden to promote the study of the Chinese language in the US, and went to a Lakers basketball game.

No agreements were signed nor breakthroughs achieved, but that was to be expected since Xi has not yet assumed the helm in Beijing. Nevertheless, the visit was important and provided an opportunity for China's incoming leader to gain a better understanding of the US and China-US relationship. It also enabled Xi to demonstrate to the domestic audience in China that he is capable of protecting Chinese interests and managing a vital relationship. Chinese trade and investment delegations, whose visit to the US were timed to coincide with Xi's visit, purchased approximately \$27 billion of US goods, including silicon chips, electronic materials, equipment and machinery, and agricultural products.

While Obama and Xi discussed their two countries' trade and economic relationship, human rights and other topics, a few hundred protesters marched outside the White House, waving Tibetan flags and demanding freedom for Tibet. Inside the Oval Office, President Obama privately assured Xi that the US has no intention of containing China's rise. He also expressed disappointment with China's veto of a UN Security Council resolution that threatened sanctions against the Syrian regime if it did not halt its military crackdown against civilians and voiced concerns about China's undervalued currency. On Iran, Obama reportedly praised Beijing for helping to keep pressure on Tehran to not develop nuclear weapons, but also warned that as countries reduce their imports of oil from Iran as part of a coordinated international effort to increase pressure on Tehran, China should not backfill by closing more deals.

In a toast at the State Department lunch that some observers viewed as excessively harsh, Vice President Biden detailed the many differences between the US and China in their approaches to

global issues. He publicly upbraided China for its veto of the UNSC resolution “against the unconscionable violence being perpetrated” by the Syrian government, underscored the need for China to protect intellectual property rights and trade secrets, to address its undervalued exchange rate, to level the competitive playing field for foreign companies in China, and to prevent the forced transfer of technology. Biden also raised human rights concerns, noting that there are areas in which conditions in China have deteriorated, and referred to “the plight of several prominent individuals” that have been raised by the US side.

Xi Jinping impressed his hosts as self-confident, relaxed, and well-versed in the broad range of issues that were raised. Throughout his visit, he delivered a few clear messages that were undoubtedly carefully crafted by China’s collective leadership. For example, in written answers to questions posed by the *Washington Post* and published on the eve of his arrival, Xi rebuked the US for increasing its military deployments and strengthening its military alliances. In his luncheon speech, he called for the US to respect China’s “core interest” through concrete actions. Quoting George Washington, he stated that the standard to judge a true friend is actions, not words. Regarding Taiwan, Xi called on the US to adhere to the three US-China joint communiqués, uphold the one-China policy, support the peaceful development of cross-strait relations and oppose “Taiwan independence” with actual deeds. Privately, he pressed the US to end its arms sales to Taiwan.

In his meetings with President Obama and senior US officials, Xi called on the US to lift restrictions on high-tech exports to China, eschew protectionist measures, and provide a level playing field for Chinese firms seeking to invest in the United States. He also urged the two sides to not create trouble for each other and “refrain from exceeding each other’s bottom line.”

Washington’s view of the visit as an investment in the future was on full display in Xi’s visit to the Pentagon, where he was greeted by Defense Secretary Leon Panetta, an honor guard of 350 troops and a 19-gun salute – privileges never before bestowed upon a visiting vice president. With the press present at the opening of their meeting, Panetta welcomed the “rise of a prosperous and successful China that plays an active and responsible role in regional and global security affairs” and said it was “essential” that mutual trust and understanding be established between the US and Chinese military establishments. In his reply, Xi thanked the secretary of defense for holding the “grand ceremony,” but he pointedly refrained from endorsing the importance of US-Chinese military ties. Xi simply told Panetta and Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey that he appreciated US support for the bilateral military-to-military exchanges and the US desire for the two militaries to have a constructive relationship. These remarks seemed out of sync with the joint statement issued during President Hu Jintao’s visit a year earlier in which the two nations reaffirmed that “a healthy, stable and reliable military-to-military relationship is an important part of positive, cooperative, and comprehensive China-US ties.”

Following their meeting, however, the Pentagon spokesman said that the two sides had “agreed on the need for enhanced and substantive dialogue and communication to foster greater understanding and expand mutual trust.” In addition, the spokesman stated that Xi had “urged both sides to maintain and strengthen practical exchanges and cooperation between the two

militaries,” voiced support for an exchange of visits by US and Chinese defense ministers, and “agreed that the two militaries should discuss the specifics of a program of future exchanges.”

A week later, China’s Defense Ministry spokesman Geng Yansheng told a monthly press briefing that Xi’s visit to the US “was of great significance to guiding the development of relations between the two countries and the two militaries” and indicated that China is “ready to work with the US side, by observing the principles of mutual respect, trust, equality and mutual benefits, to respect and take care of each other’s core interests and major concerns, properly handle differences and controversial issues, cultivate strategic mutual trust and push forward China-US military links in a healthy and stable way.”

The third Asia-Pacific Consultation

On March 12, Assistant Secretary of State Campbell hosted Vice Foreign Minister Cui Tiankai at the US Naval Academy in Annapolis, Maryland for the US-China Asia-Pacific Consultations, the third round since the mechanism was launched in May 2011. The goals of the consultations are to reduce misunderstanding and promote greater cooperation on regional challenges. They discussed North Korea, the South China Sea, Burma, and respective objectives for the upcoming rounds of the Strategic and Economic Dialogue, the Strategic Security Dialogue, and the Consultation on People-to-People Exchange, all of which are slated to take place in Beijing in May. Campbell provided an explanation of the US Asia “pivot,” seeking to allay Chinese concerns that increased US attention to the region is intended at containment or strategic encirclement of China.

A media note issued by the Department of State after the meeting termed the discussions “constructive,” and noted that “the US reiterated its commitment to working together to build a cooperative partnership with China and welcomed China playing a more active and positive role in world affairs.” It also noted that the US “emphasized its support for strengthening the role of regional institutions in Asia and its desire to work together with China to advance that goal.”

A *Xinhua* report on the meeting stated that “The two sides recognize the importance of carrying out virtuous interaction in Asia-Pacific region and agree to maintain close communication and coordination and to timely passing of messages to each other on the development of Asia-Pacific situation, major outbreak of major incidents in the region, and on respective Asia-Pacific policies through the mechanisms of the Sino-US strategic and economic dialogue, Sino-US consultations on Asia-Pacific affairs and other appropriate ways.”

Cui Tiankai also met Deputy Secretary of State William Burns, Deputy Assistant to the President and Deputy National Security Adviser Michael Froman, National Security Council Senior Director for Asian Affairs Danny Russel, and other US officials. It was agreed that a fourth round of the Asia-Pacific Consultations would be held in China before the end of the year.

Hu-Obama tête-à-tête and differences over North Korea

In the wake of Kim Jong Il’s death, the US and China consulted frequently on issues pertaining to North Korea. Beijing supported the “Leap Day” agreement reached between the US and

North Korea that offered modest hope for resolving the longstanding impasse over Pyongyang's nuclear program. The deal, outlined in separate unilateral statements, involved a North Korean moratorium on nuclear and long-range testing, suspension of North Korea's production of weapons-grade nuclear material, the return of UN inspectors from the International Atomic Energy Agency to North Korea to assess the facilities at Yongbyong and verify the end of uranium enrichment, and US provision of 240,000 tons of food aid to North Korea. Two weeks after the deal was inked, North Korea announced plans to launch a satellite between April 12 and 16, which shattered the agreement.

In China's initial response to the news, it simply indicated that it had "taken note of" North Korea's planned satellite launch and called for all parties concerned to play constructive roles. Shortly thereafter, Vice Foreign Minister Zhang Zhijun met North Korean Ambassador to China Ji Jae Ryong and voiced "concern" and "China's worry over the matter." Zhang also called for all parties to "stay calm and exercise restraint and avoid escalation of tension that may lead to a more complicated situation." Although the Chinese response fell short of the condemnations issued by Washington and Seoul, the reporting of a Chinese message of concern to North Korea prior to any destabilizing action was unprecedented. Knowing that proceeding with the satellite launch would torpedo any possibility of resuming the Six-Party Talks and reignite US-North Korean tensions, China likely put some pressure on North Korea to cancel the launch.

Still, the US demanded that Beijing do more to prevent North Korea from proceeding with the satellite launch, which was believed by the US and its allies to be a pretext for a missile test. During his visit to Seoul to attend the Nuclear Security Summit, President Obama accused China of "rewarding bad behavior and turning a blind eye to deliberate provocations."

In his subsequent meeting with President Hu Jintao on the sidelines of the summit, Obama strongly urged China to use its influence to stop North Korea's provocations. According to *Xinhua*, Hu said Beijing is "concerned and worried about the latest development," called upon all parties "to exercise calm and restraint," and insisted that China had made "unremitting efforts to help realize the denuclearization of the Korean Peninsula and to maintain peace and stability on the peninsula." Hu expressed his hope that the US and North Korea would "keep contacts and dialogues and honor the consensus reached between them." He also indicated that China was willing "to maintain close consultation and coordination with all parties concerned."

Regarding the bilateral US-China relationship, Hu put forward a four-point proposal that called for the two countries to: 1) push forward their cooperative partnership; 2) expand and deepen economic and trade ties by strengthening mutually beneficial and win-win practical cooperation in various fields; 3) have positive interactions in the Asian-Pacific region; and 4) adopt more flexible measures to ensure timely and high-quality strategic communication between leaders of the two countries.

The growing missile threat from North Korea prompted the US to disclose plans to enhance its ballistic missile defense capabilities in Asia. China's Foreign Ministry spokesman voiced concern, noting that "every country should address anti-missile issues in a cautious way, with a view of maintaining global strategic stability and enhancing strategic mutual trust."

Three days after North Korea's failed attempt on April 13 to launch a satellite, the UN Security Council issued a Presidential Statement condemning the action as a serious violation of Security Council Resolutions 1718 and 1874. The US and China reportedly coordinated closely and quickly agreed on the language which 1) demanded that North Korea comply with its obligations under prior UNSC resolutions by suspending all activities related to its ballistic missile program and reestablish a moratorium on missile launches; 2) directed the Security Council's North Korea sanctions committee to designate additional North Korean entities to be subject to an asset freeze and identify additional proliferation sensitive technology to be banned for transfer to and from North Korea; and 3) expressed the Security Council's determination to take action in the event that North Korea launches missiles or conducts nuclear tests.

Meanwhile, questions regarding China's enforcement of UN sanctions arose when North Korea displayed a missile-transport vehicle in a military parade marking the 100th birthday of Kim Il Sung. The chassis and other parts of the vehicle were believed to have been purchased from a Chinese manufacturer. If made for civilian purposes, however, the sale would not be a violation of UN sanctions. A US official told the *New York Times* that the transfer was likely a result of "poor Chinese performance in sanctions implementation, and not willful proliferation." Defense Secretary Panetta, testifying before Congress, said that China had provided some assistance to North Korea's missile program, but said he did not know the "exact extent of that." A spokesman for the Chinese Embassy in Washington denied that China had violated UN sanctions. Nevertheless, the Obama administration indicated it would use the incident to urge Beijing to tighten enforcement of its export control regime.

New strategic defense guidance

On Jan. 5, President Obama made an unprecedented visit to the Pentagon to roll out the new strategic defense guidance alongside Secretary Panetta and Chairman of the Joint Chiefs of Staff Gen. Dempsey. Entitled *Sustaining U.S. Global Leadership: Priorities for the 21st Century Defense*, the eight-page document signaled a reorientation of long-term national defense planning by the US. While the military will continue to contribute to security globally, the guidance noted, "*we will of necessity rebalance toward the Asia-Pacific region.*" China features prominently in the guidance. Noting that "China's emergence as a regional power will have the potential to affect the US economy and our security in a variety of ways," the document underscores the two countries' shared interest in building a cooperative bilateral relationship. It also calls for China to be more transparent about its strategic intentions in order to avoid regional friction and emphasizes that the US would preserve regional access and freedom of navigation.

Among the 10 missions for the US armed forces outlined in the guidance, one explicitly points to China as a threat – project power despite anti-access/area denial challenges. China and Iran are singled out as using asymmetric means to counter US power projection capabilities.

Chinese Foreign Ministry spokesman Liu Weimin reacted mildly, calling the accusations against China "groundless and untrustworthy." He insisted that China's national defense modernization is a positive factor in maintaining regional peace and stability, and its strategic intent is clear, open, and transparent. Chinese Defense Ministry spokesman Geng Yansheng also termed the charges groundless and urged the US to treat China objectively and rationally. Articles by

Chinese experts published in various newspapers responded more harshly, with several criticizing the new defense strategy as “targeting” China.

An editorial in *Renmin Ribao* viewed the new plan as “further evidence of the US desire to gain hegemony over the world.” Adm. (ret.) Yang Yi argued in the pages of *Renmin Ribao*’s Overseas Edition that “there are various causes” behind the adjustment of the US military strategy, but asserted that “it is hardly convincing or acceptable to arbitrarily link its military presence in the Asia-Pacific region with China’s military modernization.” Meng Xiangqing, deputy director and professor at the Institute for Strategic Studies of the National Defense University, wrote in *China Youth Daily* that in contrast to the past characterization of China as a potential threat, the strategic guidance portrayed China as a “realistic threat.” He added that the document “contains a very strong China-targeting flavor” but cast doubt on the ability of the US to effectively deal with problems in the Middle East and its debt crisis at home.

Celebrating the 40th anniversary of Nixon’s visit to China

Many events were held in China and the US to celebrate the 40th anniversary of President Nixon’s opening to China. Vice Minister Cui Tiankai delivered a speech at the Shanghai Institutes for International Studies marking the occasion, in which he highlighted the problem of mutual strategic distrust in the US-China relationship. He warned that “even trivial misjudgment of each other’s strategic intention may bring about severe consequences” and therefore both sides “must stay on constant alert.”

In Washington, Secretary of State Clinton gave a speech at the US Institute of Peace. Whereas in 1972 the US and China focused on establishing diplomatic ties and acquiring a basic understanding of each other, Clinton noted, the US-China project of 2012 is completely different and “unprecedented in the history of nations.” In addition, she said,

The United States is attempting to work with a rising power to foster its rise as an active contributor to global security, stability and prosperity while also sustaining and securing American leadership in a changing world. And we are trying to do this without entering into unhealthy competition, rivalry, or conflict; without scoring points at each other’s expense and thereby souring the relationship; and without falling short on our responsibilities to the international community. We are, together, building a model in which we strike a stable and mutually acceptable balance between cooperation and competition. This is uncharted territory. And we have to get it right, because so much depends on it.

Clinton criticized China for acting like a “selective stakeholder” – sometimes insisting on being treated as a great power and at other times preferring to be considered a developing nation. Reflecting rising expectations of China, she stated that “the world is looking for China to play a role that is commensurate with its new standing. And that means it can no longer be a selective stakeholder.”

National People's Congress raises common themes

The fifth and final session of the 11th National People's Congress (NPC) was held in Beijing March 5-14, 2012. Ahead of the meeting, Premier Wen Jiabao delivered his annual government work report, striking familiar themes. Wen emphasized Beijing's drive to rebalance the economy by increasing domestic consumption and shifting away from China's current reliance on exports. He announced a target of 4 percent inflation for the year, highlighted continued health care system reforms focused on cost reductions, declared a continuation of housing market controls, stressed continued development of the seven Strategic Emerging Industries (SEIs) identified in the 12th Five-Year Plan, and set an economic growth target of 7.5 percent for 2012, which is consistent with the 7 percent growth target for 2011-2015 announced last year as part of China's 12th Five-Year Plan. Beijing also announced an 11.2 percent increase for 2012 military spending, bringing the budget to 670 billion *renminbi* (\$106.4 billion), an increase of 67.6 billion *renminbi* from the 2011 budget. In a press conference on the sidelines of the NPC, Li Zhaoxing, spokesman for the Congress, stated that the budget increase was "reasonable and appropriate," explaining that China's "limited military strength" was meant to safeguard "national sovereignty and territorial integrity, and will not pose a threat to any country."

The sole piece of legislation passed at the NPC was an amendment to the Criminal Procedure Law (CPL). The revision includes language that specifies the law's basic principle is "respecting and protecting human rights," and for the first time, the CPL makes confessions, witness testimony, and depositions extracted through illegal means inadmissible in court. Other positive additions include requiring judicial supervision when conducting compulsory psychiatric treatment of suspects as well as the introduction of pretrial hearings and plea bargains. However, the amendment was controversial – both within China and abroad – due to a series of provisions that permit police to confine suspects under "residential surveillance" for up to six months if the case involves national security or terrorism. A suspect's relatives must now be notified within 24 hours of his or her arrest, but the suspect's whereabouts or details behind the detainment can remain secret. Additionally, the 24-hour notice can be waived if law enforcement officials believe it would "impede the investigation." Other disconcerting provisions include denial of a suspect's access to legal counsel during detention, and cases involving "commercial secrets" are no longer required to be tried publicly.

In the wings of the NPC meeting, scandal was brewing around Chongqing's Party Secretary Bo Xilai. In February, Wang Lijun, Bo's police chief, fled to the US Consulate in Chengdu and reportedly sought political asylum. Subsequently, Bo's wife was implicated in the murder of British citizen Neil Heywood. The scandal resulted Bo's fall from grace. Immediately after the NPC meeting, Bo was relieved of his duties and was later charged with serious violations of Party discipline. His membership on the Party's Central Committee and the Politburo was suspended. The still developing scandal is the largest crisis the Chinese leadership has faced since the 1989 protests in Tiananmen Square.

Economic frictions continue

US-China economic relations have been consistently agitated since January, as the Obama administration followed through on its commitment to use "all available tools" to address its

concerns regarding trade issues with Beijing. In late February, President Obama established a new economic mechanism to help coordinate and enforce US trade rights under domestic and international law. Soon after, the US Congress passed an anti-subsidy measure aimed at imported goods from non-market economies. Despite continued improvement, the valuation of the *renminbi* and rate of appreciation continued to draw US criticism. The US used these issues and various high-level exchanges to maintain pressure on Chinese economic and trade policy, despite protests from Chinese officials.

On Feb. 28, President Obama established the Interagency Trade Enforcement Center (ITEC) within the US Trade Representative. According to White House officials, the ITEC “will institute a more aggressive ‘whole-of-government’ approach to getting tough on trade enforcement” by monitoring and coordinating the enforcement of US trade rights under domestic law as well as under international trade agreements, and will counter unfair trade subsidies in other countries that work against US firms in the global market. In response, Chinese Commerce Minister Chen Deming commented that he hoped the ITEC would operate transparently and said China would pay close attention to “whether it obeys the rules of international trade.” In early March, over 180 members of the US Congress called on the administration “to confront China’s illegal practices that harm” US manufacturers and jobs, and urged Obama to utilize the ITEC to address “China’s predatory policies” in the auto parts sector.

Also in early March, the US Senate unanimously passed a bill that would allow the US Department of Commerce to continue placing countervailing or anti-subsidy duties on goods from non-market economies (NMEs) such as China and Vietnam. The bill was proposed in response to a December 2011 US Court of Appeals ruling that determined the Commerce Department lacked the authority to impose such duties. After clearing the Senate, the bill was passed by the House of Representatives in a 370-39 vote before being sent to the White House for the president’s signature.

The Chinese response was predictably negative. Commerce Minister Chen Deming argued at a March 7 press conference that China follows “the rules of the WTO” and has “no obligation to follow domestic laws or regulations in any specific country that go beyond the international rules.” He also insisted that the law was “not consistent with US laws and WTO rules.” Former Chinese Vice Minister of Commerce and current Director of the Council of China Foreign Trade Zhang Zhigang called the law “pure trade protectionism.” US critics also warned of worsening bilateral economic ties due to the bill’s passage, some even going so far as to accuse Congress with upping the ante in the US-China “trade war” to gain political clout.

The exchange rate issue was left untouched by the anti-subsidy measure as well as by China’s Central Bank decision in April to widen the trading band of the *renminbi*. Actually, the *renminbi* has appreciated in real terms 14 percent against the dollar since 2010 and 40 percent since 2005, although the pace has recently slowed. Nevertheless, US policymakers continued to call for the Chinese currency to appreciate faster and the issue remained a focal point both in Congress and the Republican presidential nomination race’s political discourse. The issue was also raised during bilateral meetings between the Obama administration and Chinese officials, including during Vice President Xi Jinping’s visit to Washington DC, and the meeting between Presidents Hu and Obama in March on the sidelines of the Seoul Nuclear Security Summit.

Other trade issues were also discussed between the two presidents in Seoul. *Xinhua* quoted Hu as stating that trade frictions between the two countries were developing within the context of expanding bilateral cooperation and would therefore need to be addressed through cooperation. Hu insisted that the economic problems the US is facing – such as the bilateral trade imbalance and high unemployment – cannot be blamed on China’s exchange rate system. He urged the US to lift restrictions on high-tech exports to China, which he claimed would help to stimulate US economic development and balance bilateral trade. Obama indicated that the US was “starting to address the issue” of liberalizing high-tech exports to China. He also noted that the US would seek to facilitate greater Chinese investment in US infrastructure and other sectors.

Bilateral economic tensions began to ease in April following new adjustments to Chinese financial policy. Premier Wen Jiabao suggested during a trip to Fujian province that the “monopoly” capital flows by the state-owned banks needed to be dismantled, marking the first time a senior official made such observations. Chinese officials also announced new steps in April granting the *renminbi* greater freedom of movement, including lifting some restrictions to capital flows in and out of China, permitting retail investors to buy and sell some investments via Hong Kong, and authorizing the sale of *renminbi*-denominated bonds in London. Treasury Secretary Geithner described these developments as “very significant and very promising,” stating that they signaled “a continued commitment by Chinese authorities to a broad change.” Ongoing frustration evidently still lies just under the surface, however, as US companies continued to cite the long way yet to go on other bilateral trade issues, such as protection of intellectual property and access to the Chinese market.

Rare earth issue goes to the WTO

On March 13, the United States, Japan, and the EU brought a formal complaint to the World Trade Organization (WTO) accusing China of deliberately keeping prices of rare earth elements low for domestic manufacturers while pressuring foreign companies to move their operations to China. The case has been brewing since China first announced it would begin curbing rare earth exports in December 2010. Beijing has continued to defend its policy, claiming that the controls were necessary to protect the environment and preserve supply of these natural resources. Ministry of Foreign Affairs spokesman Liu Weimin stated that China’s stance on rare earth minerals “is in line with WTO regulations,” and that China’s “policies tackle not only the export of rare earth but also its production and exploration.”

In November 2011, the US, the EU, and Mexico filed a separate case with the WTO over Chinese export controls of different raw materials. In that case, the WTO ruled against China’s controls in January, but Beijing has yet to lift its restrictions, which left other countries “no choice but to challenge China’s export regime again,” according to EU Trade Commissioner Karel De Gucht in his statement on the rare earth case. President Obama argued that this most recent complaint was meant to give US workers and businesses “a fair shot in the global economy.” According to WTO regulations, the relevant parties have 60 days to try to resolve the dispute. If the matter is still unresolved, the US, EU and Japan may ask the WTO to establish a dispute-settlement panel as a next step. Once such a panel hears both sides’ appeals, the process could then take years before the case is finally resolved.

US and China in the UNSC: Syria

Over the past months, discord between the US and China on how to best manage the Syrian crisis has become a source of contention. Responding to growing violence in the nearly yearlong pro-democracy uprising in Syria, the US called for President Bashar al-Assad to step down and pressed for sanctions, but refrained from a military intervention. China strongly opposed military intervention and sanctions, instead arguing that the crisis can be resolved if the violence stops and all parties engage in dialogue without preconditions. On Feb. 4, China and Russia vetoed a UNSC resolution that backed an Arab peace plan and called for the Syrian president to step down. China's UN Ambassador Li Baodong stated that Beijing vetoed the resolution because it would have complicated the issue by putting "undue emphasis on pressuring the Syrian government." China and Russia were also among the 12 nations that voted against the Feb. 16 nonbinding General Assembly resolution that called for Assad to be removed from office and condemned the regime's human rights violations.

A number of factors guided China's decisions at the UN. First, China regretted abstaining from UNSCR 1973 on Libya, which Beijing – and Moscow – believes was abused by NATO to oust Libyan leader Muammar Gaddafi. China feared that backing the Syria resolution would further sanction UN-armed intervention to carry out regime change. Second, Beijing is increasingly seeking to work in tandem with Moscow in the UNSC and likely calculated that a vote in support of protecting Russia's interests in Syria would encourage Moscow to vote in favor of China's interests in the future. China also judged that its actions were justified as previous "Responsibility to Protect" missions, like the one in Libya, resulted in civilian deaths without an end to the violence. A Ministry of Foreign Affairs official likened those missions to "successful surgery that kills the patient."

The US harshly condemned Beijing and Moscow after the vote. US Ambassador to the UN Susan Rice said that the US was "disgusted" by the veto and charged Russia and China with holding the Security Council "hostage," and "sell[ing] out the Syrian people and shield[ing] a craven tyrant." Secretary Clinton blasted their decision to veto as "despicable." Press Secretary Jay Carney said that the White House agreed with the assessment that the veto gave Assad a "license to kill." As noted above, during Vice President Xi Jinping's visit to Washington, Syria was addressed by both President Obama and Vice President Biden, although no agreement was reached on a way forward.

Chinese officials were relatively diplomatic in responding to the US denunciations. Ministry of Foreign Affairs spokesman Liu Weimin said China rejected the "accusations," insisting that China does "not shelter anyone, nor do we intentionally oppose anyone." China's media was more combative. A *People's Daily* editorial by Zhong Sheng – a pseudonym meaning "voice of China" – maintained the US, had "not seriously considered how to help the Syrian people put an early end to this disaster at minimal cost" and charged that "in the name of helping Syrians achieve 'freedom' and 'democracy,' Washington is bitterly criticizing Beijing and Moscow."

As violence in Syria mounted, China undertook independent efforts to help resolve the conflict. Beijing dispatched envoys to Syria, first Vice Foreign Minister Zhai Jun in mid-February and

then former Ambassador Li Huaxin in early-March. China also supported a nonbinding press statement calling on Assad to allow UN humanitarian organizations into Syria. Then in March, China backed a nonbinding statement in the UNSC calling for the implementation of Special Envoy Kofi Annan's six-point peace plan. Foreign Minister Yang Jiechi told Secretary Clinton during an April 13 phone call that "China is willing to cooperate closely with the relevant parties including the United States for an early political solution to the crisis in Syria." The next day, China voted in support of UNSCR 2042, which authorized observers to monitor the ceasefire and subsequently deployed Chinese monitors.

US presses China to reduce oil imports from Iran

When it comes to concerns about Iran and its nuclear ambitions, the US and China agree that a nuclear Iran would be extremely destabilizing for the region. Both also view Teheran's uranium enrichment program as worrying. Nevertheless, the two countries consistently diverge over how to address the problem, whether through diplomacy or sanctions. As part of the US response to IAEA evidence that Iran is pursuing nuclear weapons, Washington sent Treasury Secretary Geithner to China on Jan. 10-11 to ask Beijing to join the US in sanctioning Iranian oil. Chinese support is perceived as crucial for sanctions to be effective because China is the biggest importer of Iranian oil and is currently Iran's largest trading partner. Geithner was unsuccessful, however.

After Geithner's visit concluded, the US unilaterally sanctioned China's state-run Zhuhai Zhenrong Corp. on Jan. 12 for selling refined oil to Iran. The move was considered largely symbolic as the company does not do business with the US. However, it did appear to deter other Chinese companies. In mid-March, for instance, the Industrial and Commercial Bank of China (ICBC) backed away from financing an Iran-Pakistan gas pipeline for fear of similar US sanctions. Chinese imports of Iranian crude oil were a third lower than the same period last year, although the reductions were likely due to disputes over contract terms, not Chinese efforts to punish Iran for its nuclear activities – either way, the US was pleased.

A *People's Daily* editorial by Zhong Sheng harshly criticized the US for its unilateral sanctions and argued that purchases of Iranian crude are "normal bilateral trade relations." At the same time, China took measures to signal that its decision not to sanction Iranian oil should not be construed as support for Iran's nuclear program. Premier Wen Jiabao emphasized on Jan. 18 that China is "resolutely opposed to the manufacturing and possession of nuclear weapons by Iran" and warned Teheran not to take "extreme measures" in the Strait of Hormuz. China also repeatedly encouraged Iran to cooperate with IAEA inspectors.

In his March 6 press conference held at the end of the Fifth Session of the 11th National People's Congress, Foreign Minister Yang Jiechi reiterated China's opposition to the development and possession of nuclear weapons by Iran. Yang also repeated Beijing's longstanding position that all countries have the right to peaceful use of nuclear energy. In addition, he underscored China's opposition to unilateral sanctions and called for close coordination among the countries in the P5 plus one mechanism to find a proper settlement of the Iranian nuclear issue.

The first round of a new series of negotiations between the P5 plus one and the Iranians was held on April 13-14 in Istanbul. At the talks, the Chinese reported played a more active role, tabling

their own proposals rather than hewing closely to Russia's position as has been their practice in the past. Following the discussions, *China Daily* stressed that dialogue is the only appropriate way to resolve the issue and maintained that the "situation concerning Iran cannot be allowed to deteriorate further as that will have disastrous consequences and serve no one's interests." US sanctions aimed at further isolating Iran's central bank – which processes most of Iran's oil purchases – from the global economy are set to take effect on June 28 on countries that import oil from Iran unless they show a "significant reduction" in imports. China, along with India and Turkey, have asked for waivers from US sanctions as they are heavily dependent on Iran's energy resources. US law gives President Obama the ability to waive sanctions if doing so is in the national interest.

Looking forward

It remains to be seen whether the Chen Guangcheng affair will have an enduring impact on US-China relations. Chinese suspicions of US intentions toward China may further increase, especially in regards to alleged US efforts to subvert China's communist party rule. Nevertheless, US-China relations are likely to survive this political storm.

The fourth annual US-China Strategic and Economic Dialogue (S&ED) will take place May 3-4 in Beijing. It will be the last S&ED convened by the current four chairs: Secretary of State Clinton, Treasury Secretary Geithner, State Councilor Dai Bingguo and Vice Premier Wang Qishan. Expect both sides to celebrate the achievements of this dialogue mechanism, although this round will likely produce little in the way of concrete deliverables. Nevertheless, it provides an important opportunity to discuss the broad range of economic and security issues that are on the US-China agenda. Just prior to the S&ED, on May 2, another round of the Strategic Security Dialogue will be held, bringing together senior military and civilian officials to discuss sensitive cross-cutting security issues.

For the remainder of the year, the US and China will focus on their domestic political priorities as the US presidential campaign kicks into high gear and the final preparations are made for China's 18th Party Congress. High-level exchanges will slow, but not stop. With agreement reached between Beijing and Washington in early April on the defense exchange agenda for 2012, Defense Minister Liang Guanglie is scheduled to visit the United States in May and another visit by Chinese Air Force Commander Xu Qiliang is planned for the summer.

Chronology of US-China Relations*

January – April 2012

Jan. 4, 2012: As part of a trip to China, South Korea, and Japan, Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell visits Beijing for talks on bilateral and regional issues with Vice Foreign Minister Cui Tiankai.

* Chronology and research assistance by CSIS intern Andria Matrone

Jan. 5, 2012: President Barack Obama and Secretary of Defense Leon Panetta release a new strategic guidance document entitled *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, which cites China, together with Iran, as pursuing asymmetric means to counter US power projection capabilities.

Jan. 10-11, 2012: Treasury Secretary Timothy Geithner visits Beijing and meets Premier Wen Jiabao, Vice President Xi Jinping, Vice Premier Wang Qishan and other high-ranking officials to discuss economic cooperation and economic sanctions on Iranian oil.

Jan. 12, 2012: US imposes sanctions on China's state-run Zhuhai Zhenrong Corp. for selling refined oil to Iran.

Jan. 16, 2012: Prior to his visit to the US, Xi Jinping gives a speech in Beijing stating that the US and China should cooperate more to prevent a major disruption in relations.

Jan. 19, 2012: President Barack Obama issues an executive order to simplify the tourist visa process for Chinese citizens.

Jan. 19, 2012: US Department of Commerce announces an anti-dumping investigation focusing on Chinese wind tower parts.

Jan. 24, 2012: In the State of the Union speech, President Obama announces the creation of a new trade enforcement group to stop unfair trade practices in countries such as China.

Jan. 24, 2012: State Department issues a statement expressing concern over increased violence in Tibet, and calls on China to show restraint and reopen dialogue with Tibetans.

Jan. 26, 2012: US-China Economic and Security Review Commission holds a hearing on China's pursuit of natural resources and the implications for the US.

Jan. 27, 2012: At the World Economic Forum in Davos, Secretary Geithner says China's trade practices are "damaging" to its trading partners.

Jan. 29, 2012: Chinese Foreign Minister Yang Jiechi meets US Deputy Secretary of State William Burns in Addis Ababa.

Jan. 30, 2012: World Trade Organization (WTO) rules that China must stop export taxes and quotas on commonly used industrial materials. US, EU, and Mexico filed this case in 2009.

Feb. 4, 2012: China and Russia veto a UN Security Council (UNSC) resolution on Syria calling for President Bashar al-Assad to step down.

Feb. 6, 2012: Wang Lijun, vice-mayor and head of the Public Security Bureau of Chongqing, goes to the US consulate in Chengdu and reportedly requests political asylum.

Feb. 7, 2012: Vice Presidents Xi Jinping and Joe Biden talk by phone to discuss bilateral relations prior to Xi's visit to the US.

Feb. 7, 2012: Vice Foreign Minister Cui Tiankai says in a speech that there is a "trust deficit" between the US and China and he hopes that the Xi Jinping visit will strengthen relations.

Feb. 10, 2012: Commerce Department announces US merchandise trade deficit with China set a new record high in 2011 at \$295.5 billion, up from the record high of \$273.1 billion in 2010.

Feb. 13, 2012: State Councilor Dai Bingguo and Secretary Clinton discuss the crisis in Syria during a phone call.

Feb. 13-17, 2012: Xi Jinping visits the US with stops in Washington DC, Iowa, and Los Angeles.

Feb. 15, 2012: The US-China Economic & Security Review Commission holds a hearing on "Chinese State-Owned and State-Controlled Enterprises."

Feb. 16, 2012: Agriculture Secretary Tom Vilsack and Minister of Agriculture Han Changfu sign a Plan of Strategic Cooperation on food safety, food security, and sustainable agriculture.

Feb. 17, 2012: White House announces that China will increase its yearly quota of US movies that can be released in China to 34 from 20.

Feb. 23, 2012: Chinese State Councilor and Defense Minister Liang Guanglie meet US Ambassador to China Gary Locke and call for improved military ties.

Feb. 24, 2012: China's Special Representative for Korean Peninsula Affairs Wu Dawei meets US Special Representative for DPRK Policy Glyn Davies after the conclusion of talks held in Beijing between the US and North Korea.

Feb. 24, 2012: Secretary of State Clinton deplores Russia and China as "despicable" for opposing UN action aimed at stopping the bloodshed in Syria.

Feb. 28, 2012: President Obama signs an executive order creating the Interagency Trade Enforcement Center to "counter unfair trade practices around the world, including by countries like China."

March 5-14, 2012: China holds its annual meeting of the National People's Congress.

March 5, 2012: US Senate votes to uphold the ability to put duties on subsidized goods from China and Vietnam.

March 7, 2012: Secretary Clinton and Foreign Minister Yang Jiechi deliver remarks at the US Institute of Peace to celebrate the 40th anniversary of President Nixon's trip to China.

March 8, 2012: US-China Economic and Security Review Commission releases a report that states Chinese cyber warfare capabilities pose a risk to US military forces.

March 12, 2012: Assistant Secretary Campbell and Vice Minister Cui Tiankai hold the third round of Asia-Pacific Consultations in Annapolis, Maryland.

March 13, 2012: President Obama announces that the US, the EU and Japan are filing a formal “request for consultations” with China at the WTO about Chinese restrictions on exports of rare earth metals.

March 15, 2012: Bo Xilai is removed as Chongqing Communist Party chief.

March 16, 2012: Chinese Vice Foreign Minister Zhang Zhijun meets North Korean Ambassador to China Ji Jae Ryong and voices “concern and worry” of Pyongyang’s planned satellite launch.

March 19, 2012: US imposes duties on imports of subsidized steel wheels from China.

March 20, 2012: US International Trade Commission (ITC) refuses to revoke the anti-dumping duty order on silicon metal from China.

March 20, 2012: Commerce Department says it will impose tariffs on solar panels from China after concluding that Chinese government provided illegal export subsidies to manufacturers.

March 22, 2012: State Councilor Dai Bingguo has telephone conversation with National Security Advisor Thomas Donilon. They discuss bilateral relations and the Korean peninsula.

March 22, 2012: ITC announces it is launching anti-dumping and countervailing duty investigations on stainless steel sinks from China.

March 26, 2012: US-China Economic and Security Review Commission holds a hearing on “Developments in China’s Cyber and Nuclear Capabilities.”

March 28, 2012: Secretary Clinton and Ambassador-at-Large for Global Women’s Issues Melanne Verveer welcome a delegation of Chinese women led by Chen Zhili, vice chairperson of the Standing Committee of the NPC and President of the All-China Women’s Federation (ACWF), for the Third US-China Women’s Leadership and Exchange Dialogue.

March 28, 2012: The US Senate passes S.Res.356 that “deplores the repressive policies targeting Tibetans” and calls for China to resume dialogue with the Dalai Lama.

April 10, 2012: *People’s Daily* reports that Bo Xilai has been suspended from the Communist Party’s 25-member Politburo and Central Committee and is under investigation for “serious discipline violations” and that his wife, Gu Kailai, has been arrested as a suspect in the murder of a British businessman.

April 11-14, 2012: Director of the State Council's Taiwan Affairs Office Wang Yi visits the US and meets Deputy Secretary of State Burns to discuss Taiwan issues.

April 13, 2012: Foreign Minister Yang Jiechi has a telephone conversation with Secretary Clinton to discuss the crisis in Syria.

April 14, 2012: Foreign Minister Yang Jiechi has a telephone conversation with Secretary Clinton to discuss the situation on the Korean Peninsula.

April 17, 2012: US ITC decides not to impose antidumping or countervailing duties on steel wheels from China.

April 18, 2012: Departments of Defense and State release a report recommending a relaxation of export controls on satellite technology, but adds that restrictions should be maintained on the export to China of some items.

April 19, 2012: Secretary of Defense Leon Panetta says that China provided support to North Korea's missile program. However, State Department spokesman Mark Toner says that the US believes China's "repeated assurances" that it is complying with UN sanctions.

April 27, 2012: In a letter to Sen. John Cornyn, the White House says the US will give "serious consideration" to selling Taiwan *F-16C/D* jets, in addition to upgrading the *F-16A/B* jets.

April 27, 2012: Chen Guangcheng, a blind lawyer under house arrest, enters the US Embassy in Beijing seeking assistance.

April 29, 2012: Assistant Secretary of State Campbell arrives in Beijing to discuss Chen Guangcheng's case.