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## **China-U.S. Relations: Current Issues and Implications for U.S. Policy**

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# China-U.S. Relations: Current Issues and Implications for U.S. Policy

## Summary

For much of the George W. Bush Administration, U.S.-China relations have been unusually smooth and stable. Still, several perennial problems continue to dog the relationship. Taiwan remains the most sensitive and complex issue the two countries face and the one that many observers fear could lead to potential conflict. China considers Taiwan's budding independence movement the single biggest threat to China's sovereignty and regional peace, and Beijing maintains that it has the right to use force to "reunify" with its "renegade province" Taiwan. In March 2005, China's National People's Congress will consider an "anti-secession law" aimed at Taiwan. Meanwhile, the United States continues to sell defensive weapons to Taiwan and to offer assistance to its military. U.S. officials have warned both sides not to take provocative action and have warned the PRC that considering an anti-secession law is not constructive to stability.

The United States continues to object strongly to the European Union's plans to lift its 15-year-old arms embargo on China, expected to happen before June 2005. The United States will continue to maintain its own arms embargo on China, imposed after the Tiananmen Square crackdown of 1989. In addition, the United States continues to rely on Beijing's diplomacy in bringing North Korea to the Six-Party Talks on its nuclear weapons program. Following a PRC-North Korea meeting, North Korea agreed to return to the talks if conditions are sufficiently "mature." But U.S. concerns remain about China's own track record of weapons sales, technology transfers, and nuclear energy assistance to "rogue" nations such as Iran and Syria.

In the most recent State Department Country Reports on Human Rights Practices, released February 28, 2005, U.S. officials again classified China's human rights record as poor. Beijing continues its crackdown on independent religious organizations, citizens accused of leaking state secrets, and other political activists. Bilateral economic and trade issues remain as important U.S. concerns. U.S. officials particularly have criticized China's failure to halt piracy of U.S. intellectual property rights (IPR) products, and China's continued artificially low peg of its currency to the U.S. dollar, which many American observers say gives Chinese products an unfair competitive advantage in the international marketplace.

A growing concern for U.S. policymakers is China's growing global "reach" and the consequences that China's increasing international economic and political influence will have for U.S. interests. To feed its voracious appetite for resources, China is steadily and successfully seeking trade agreements, oil and gas contracts, scientific and technological cooperation, and even multilateral security arrangements with countries in Asia, Europe, the Middle East, Central Asia, Africa, and Latin America, and with Canada. Some of China's growing relationships are with key U.S. allies. Even if these trends are the benign consequences of China's economic development and growth, they may pose critical future challenges for U.S. economic and political interests. At the same time, these trends appear to have prompted Japan to seek closer U.S. relations as a counterweight to China's growing regional power.

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## Most Recent Developments

March 10, 2005 — In an announcement anticipated for weeks, Hong Kong's Chief Executive, Mr. Tung Chee-hwa, announced he would be resigning his post after eight years. His second and final term was to have been up in June 2007.

March 8, 2005 — Chinese officials revealed details of the proposed anti-secession law aimed at Taiwan that is being put before the National People's Congress this month.

February 28, 2005 — The State Department released its annual global report for 2004 on human rights practices in China and around the world.

February 3, 2005 — By a vote of 411-3, the U.S. House of Representatives passed a non-binding measure condemning the EU's plans to lift the arms embargo it imposed against China after the Tiananmen crackdown of 1989.

February 2, 2005 — Members of the House signed a bipartisan letter to Secretary of State Condoleezza Rice asking the Department of State to transmit congressional notifications for \$18.2 billion in arms sales to Taiwan.

January 17, 2005 — Zhao Ziyang, ousted as PRC Party Secretary during the Tiananmen Square crackdown and never rehabilitated, died at age 85.

January 12, 2005 — The British government announced that the European Union likely would lift its arms embargo against the PRC some time in the next few months.

January 8, 2005 — According to the *Los Angeles Times* (p. C-3), the United States and China agreed to a new, multi-entry visa policy to facilitate business and tourist visits. The policy took effect on January 15, 2005.

December 29, 2004 — China's official news agency, *Xinhua*, announced that the Standing Committee of the National People's Congress (NPC) had voted unanimously to submit an anti-secession law, aimed at Taiwan independence advocates, to the full NPC at its March 2005 legislative session.

December 29, 2004 — PRC state media reported that China and India had agreed to deepen defense cooperation. The agreement was announced at the

conclusion of a week-long visit by India's army chief, N.C. Vij — the first visit at this level in a decade — and talks with his counterpart, Liang Guanglie, and Defense Minister Cao Gangchuan.

December 27, 2004 — Russian Defense Minister Sergei Ivanov said Russia and China had agreed to hold unprecedented joint military exercises in China in 2005.

## **Background and Overview**

### **Introduction**

China-U.S. relations now are smoother than they have been at any time since the Tiananmen Square crackdown in 1989. In the last several years, the two governments have resumed regular high-level visits and exchanges of working level officials, resumed military-to-military relations, cooperated on anti-terror initiatives, and worked closely to restrain and eliminate North Korea's nuclear weapons activities. Despite this, thorny problems continue to be factors in the relationship, including difficulties over China's intentions toward and U.S. commitments to democratic Taiwan, and various disputes over China's failure to protect U.S. intellectual property rights, the economic advantage it gains from pegging its currency to the U.S. dollar, and other trade issues. In addition, China's accelerating rise in the world has significant implications for U.S. power and influence around the globe. In pursuit of its economic development agenda, China's enormous and growing appetite for energy, raw materials, and other resources has led it to seek and conclude an increasing number of economic and energy-related agreements around the world, many of them with key U.S. allies. These trends appear to be driving Japan to seek closer U.S. relations as a counterweight to China's regional influence. Even if ultimately benign, China's growing international reach may pose critical challenges to U.S. economic and strategic interests.

### **Background**

For much of the 1990s, a number of factors combined to ensure that U.S. congressional interest in the People's Republic of China (PRC) increased year by year. In the years after the 1989 Tiananmen Square crackdown, Members often felt that they were neither consulted nor listened to by the Executive Branch concerning the appropriate direction for U.S. China policy. Without the strategic imperative that the Soviet Union had once provided for comprehensive U.S.-China relations, individual Members began to raise their own more narrowly focused concerns in China policy, such as efforts on behalf of Taiwan, in favor of human rights, or against forced sterilization and abortion.

During the later Clinton Administration, when U.S. officials were pursuing a "strategic partnership" with China, some Members became increasingly concerned that the U.S. government was not thinking seriously enough about the PRC as a longer-term threat to U.S. interests, given the PRC's missile build-up opposite Taiwan and Beijing's growing nationalism and economic strength. Members were particularly concerned about supporting the democratization and growing political

pluralism Taiwan had embraced since abandoning authoritarian rule. Congress in these years enacted more provisions to accommodate Taiwan's interests, engaged in repeated and protracted efforts to further condition or even withdraw the PRC's most-favored-nation (MFN) status, held hearings and considered legislation targeting the PRC's human rights violations, created two commissions to monitor PRC developments, and imposed a host of requirements on the U.S. government to monitor, report on, and restrict certain PRC activities.<sup>1</sup>

Since late 2001, however, U.S.-China relations have experienced a sustained period of unusual stability, and Congress as a whole appeared to become less vocal and less legislatively active on China-related issues. The reasons for this cannot be attributed to any resolution of entrenched bilateral policy differences — such as those long held over human rights or on Taiwan's status — for these differences still exist and are likely to plague the relationship for the foreseeable future. Rather, other factors and policy trends appear to be at work:

- **Assertiveness on China.** The Bush Administration has sought to distance itself from the policies of “engagement” favored by American Presidents since 1979 and instead has de-emphasized the importance of Sino-U.S. relations in American foreign policy. Even while appearing less solicitous of Beijing's views, Administration officials have been more open to substantively and symbolically meaningful dialogue with China at most senior levels. Some observers have suggested that this approach has helped reduce Beijing's angst over and leverage in the U.S. policy process.
- **Support for Taiwan.** The Bush Administration has been more supportive of selling arms to Taiwan and other measures to enhance Taiwan's status and security than were any previous U.S. Administrations since 1979. Some have suggested that greater support for Taiwan serves to balance U.S. contacts with the PRC and eliminate recurring White House tensions with Congress, where Taiwan is an interest of many Members.
- **Changing U.S. Priorities.** September 11<sup>th</sup>, the resulting U.S.-led anti-terrorism war, and U.S. military campaigns in Afghanistan and Iraq have brought about dramatic changes in global and national priorities — including new agendas within the U.S. Congress — that have taken precedence over other foreign policy issues, including the PRC.
- **Changing PRC Priorities** Since 2001, the PRC has been preoccupied with a wholesale transition to a new generation of leaders who have begun to put their own stamp on policy decisions. New PRC leaders remain focused on maintaining social stability,

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<sup>1</sup> In the United States, the term “most-favored-nation” (MFN) status has been replaced by the term “normal trading relations” (NTR) status.

nurturing China's growing international economic clout, and expanding its increasingly modulated and proactive foreign policy.<sup>2</sup>

During the 108<sup>th</sup> Congress (2003-2004), American policymakers watched PRC leaders commit significant mistakes in their handling of the unprecedented outbreak of Severe Acute Respiratory Syndrome (SARS). These mistakes resulted in strong public pressure from Chinese citizens demanding greater transparency and accountability from government officials, and to a series of procedural and legal changes in the PRC whose effects are still being felt. In addition, American policymakers during the 108<sup>th</sup> Congress were faced with a number of other key issues likely to continue to affect bilateral relations during the 109<sup>th</sup> Congress. These included: Taiwan's growing pressure for changes in its political status; continued missile deployments and periodic threats by the PRC to counter Taiwan's perceived pro-independence aspirations; continued reports of PRC abuses of human rights and repression of religious and press freedom; concerns that China's currency peg to the U.S. dollar has greatly undervalued Chinese exports and contributed to a soaring U.S. trade deficit; allegations that PRC officials have unduly interfered in Hong Kong's democratization process; and China's role in hosting three rounds of unproductive six-party talks on North Korea.<sup>3</sup>

This report addresses relevant policy questions in current U.S.-China relations, discusses trends and key legislation in the 109<sup>th</sup> Congress, and provides a chronology of developments and high-level exchanges from January 2005 onward. It will be updated as events warrant. Additional details on the issues discussed here are available in other CRS products, noted throughout this report. For background information and legislative action preceding 2005, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*.

## Key Current Issues

### Taiwan

Taiwan remains the most sensitive and complex issue that U.S. policymakers face in bilateral Sino-U.S. relations. It is the issue that many observers most fear could lead to potential U.S.-China conflict. Beijing continues to lay sovereign claim to Taiwan and vows that one day Taiwan will be reunified with China either peacefully or by force. Beijing has long maintained that it has the option to use force should Taiwan declare independence from China. On December 27, 2004, the PRC

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<sup>2</sup> At its 16<sup>th</sup> Party Congress (November 8-14, 2002), the PRC's Communist Party selected a new Party General Secretary (Hu Jintao), named a new 24-member Politburo and a new nine-member Standing Committee, and made substantive changes to the Party constitution. Further changes in government positions were made during the 10<sup>th</sup> meeting of the National People's Congress in March 2003, and in September 2004. For more on the leadership transition, see CRS Report RL31661, *China's New Leadership Line-up: Implications for U.S. Policy*, by Kerry Dumbaugh.

<sup>3</sup> For detailed information on these earlier developments, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*, by Kerry Dumbaugh.

emphasized this point again in its fifth white paper on national security, entitled “China’s National Defense in 2004.”<sup>4</sup> The paper called the Taiwan independence movement the single biggest threat to China’s sovereignty and to regional peace, and it vowed to prevent Taiwan independence at all costs. Chinese leaders are supporting these long-standing claims with more than 500 missiles deployed opposite Taiwan’s coast and with a program of military modernization and training that defense specialists believe is based on a “Taiwan scenario.” In addition, on December 17, 2004, the PRC announced its intent to pass a law early in 2005 to prohibit secession — a law most believe is aimed at creating a legal basis for possible PRC military intervention in Taiwan. Some also claim such a law could be used to harass independence advocates in Taiwan by, for example, labeling them “criminals” and demanding their extradition from third countries.

Concerns have intensified in recent years because of Taiwan’s new volatile and unpredictable political environment, where the balance of political power has teetered precipitously between two contending political party coalitions. One of these, led by the Democratic Progressive Party (DPP), controls the presidency and is closely associated with advocates of Taiwan independence. Taiwan’s President, Chen Shui-bian, is a DPP member who has spent much of his political career pushing for a separate international identity for Taiwan and referring to Taiwan as “already” an independent country. The other party coalition, led by the remnants of the once-dominant Nationalist Party (KMT), advocates greater policy caution and more engagement with the PRC. The KMT was returned to its slim majority in the legislature in December 2004 elections, denying Chen and the DPP the legislative control they sought to advance the party’s policy priorities.

**PRC Anti-Secession Law.** On March 8, 2005, PRC officials officially revealed details of an “anti-secession law,” aimed at Taiwan, which the National People’s Congress is expected to pass at its annual two-week meeting that began March 5, 2005. Even before the contents were known, American observers and U.S. officials termed the initiative counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004. Many fear that the anti-secession law, if passed, could raise tensions across the Taiwan strait and increase the possibility of conflict. Critics also fear the proposed law could be used to harass independence advocates in Taiwan by, for example, labeling them “criminals” and demanding their extradition from third countries. According to a statement by Wang Zhaoguo, the deputy chairman of the NPC’s Standing Committee, the anti-secession law mandates the use of force against Taiwan “as a last resort” should all attempts to reunify fail. Wang’s statement, released verbatim, also said:

The draft legislation provides that in the event the Taiwan independence forces should act under any name or by any means to cause the fact of Taiwan’s secession from China, or that major incidents entailing Taiwan’s secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measure to protect China’s sovereignty and territorial integrity.

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<sup>4</sup> The paper was released by the Information Office of the State Council of the PRC. Full text is at [<http://english.people.com.cn/whitepaper/defense2004/defense2004.html>].



**U.S. Taiwan Policy and U.S. Arms Sales.** U.S. policymakers generally have tried to maintain a delicate balancing act between Taiwan and the PRC, periodically admonishing each side not to take provocative action that could destabilize the status quo.<sup>5</sup> The George W. Bush Administration is regarded as having been more solicitous and supportive of Taiwan than any previous U.S. Administration since 1979.<sup>6</sup> Among other steps, the Administration in its first term did the following:

- Responded to Taiwan’s annual request to purchase specific U.S. weapons by approving a more robust arms sales package to Taiwan, including Kidd-class destroyers, diesel submarines, and P-3C Orion aircraft.<sup>7</sup>
- Enhanced military-to-military contacts, including meetings between higher-level officers; cooperation on command, control, and communications; and training assistance.<sup>8</sup>
- Approved transit visas for top Taiwan officials to come to the United States, including Taiwan’s President and Vice-President.

But with political battles between the pro-independence DPP and the status-quo KMT growing more heated in a series of key election campaigns in Taiwan, in late 2003 Bush Administration officials appeared to ease somewhat their support of the Taiwan government. On December 9, 2003, while standing next to visiting PRC Premier Wen Jiabao, President Bush issued a public and blunt warning to Taiwan, saying “The comments and actions made by the leader of Taiwan indicate he may be willing to make decisions unilaterally that change the status quo, which we oppose.”<sup>9</sup> In addition, U.S. officials have expressed increasing frustration in recent years over Taiwan’s lagging arms purchases from the United States. Political disagreements in

<sup>5</sup> Since the 1970s, when the United States broke relations with Taiwan in order to normalize relations with Beijing, U.S. policy toward Taiwan has been shaped by the three U.S.-China communiqués, the Taiwan Relations Act (P.L. 96-8), and the so-called Six Assurances. See CRS Report 96-246, *Taiwan: Texts of the Taiwan Relations Act, the U.S.-China Communiqués, and the “Six Assurances.”*

<sup>6</sup> As an example, in an ABC television interview on April 25, 2001, President Bush responded to a question about what his Administration would do if Taiwan were attacked by saying that the United States would do “whatever it took” to help Taiwan defend itself. Critics of the statement said that the United States had no defense alliance with Taiwan and had remained deliberately ambiguous about its reaction if Taiwan were attacked.

<sup>7</sup> See CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

<sup>8</sup> According to an online journal from *Pacific Forum CSIS*, at a March 2002 meeting of the U.S.-Taiwan Business Council in Florida, Deputy Defense Secretary Paul Wolfowitz emphasized that along with arms sales, helping Taiwan more successfully integrate its military forces was an important U.S. priority.

<sup>9</sup> For more background information on Taiwan and its history with the PRC, see CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*; for background on developments in U.S.-China relations during the 108<sup>th</sup> Congress, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*.

Taiwan so far have kept the government from purchasing much of the weapons President Bush approved for sale in 2001. To date, these disagreements have stalled a special \$18 billion arms acquisition budget that the DPP government submitted to Taiwan's legislature. Opposition KMT lawmakers have blocked consideration of the bill, arguing that its cost is too high and the weapons do not meet Taiwan's needs.

Similar controversies have occurred over other potential sales — such as the possible sale of an early-warning radar system to Taiwan to counter the PRC's missile threat. Lockheed Martin withdrew its bid to supply such a system after strong criticism of the deal reportedly prompted Taiwan military authorities to begin re-examining the proposed purchase.<sup>10</sup> Apart from this, other limited arms purchases are continuing. On January 4, 2005, for instance, the Lockheed Martin Corp. announced that Taiwan will purchase more than 400 Hellfire missiles from the United States for about \$50 million. According to reports citing Lockheed Martin officials, the decision “ensures [Taiwan's] military interoperability with the U.S. army, marine corps and special operations forces deployed worldwide.”<sup>11</sup>

**Taiwan and the World Health Organization (WHO).** For eight consecutive years, Taiwan's application for observer status in the WHO has been defeated — most recently on May 17, 2004, when 133 countries voted against the measure at the annual meeting of WHO's administrative arm, the World Health Assembly (WHA), while 25 voted in favor. Opposition from the PRC routinely has blocked Taiwan's bids on political grounds. PRC officials have argued that since Taiwan is not a state but a part of China it cannot be separately admitted to U.N. entities for which sovereign status is a pre-requisite for membership. Taiwan authorities maintain that “observer status” in WHO would be an apolitical solution in Taiwan's case, since other non-sovereign entities, like the Holy See and the Palestine Liberation Organization, have been given such status. The U.S. Government is on record as supporting Taiwan's membership in organizations “where state-hood is not an issue.”<sup>12</sup> The U.S. delegation voted in Taiwan's favor on the May 17, 2004 observer status vote.

Members of Congress often have sought to gain Taiwan observer status in the WHO. As in past Congresses, the 108<sup>th</sup> Congress considered and passed legislation (P.L. 108-28) requiring the the Secretary of State to seek Taiwan's observer status at the 2003 annual WHA meeting.<sup>13</sup> In 2004, the 108<sup>th</sup> Congress made this requirement permanent, passing legislation requiring the Secretary of State to seek Taiwan's observer status at every annual WHA meeting.<sup>14</sup>

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<sup>10</sup> “Defense Firm Drops Radar Bid for Taipei,” *Agence France-Presse*, Feb. 7, 2005.

<sup>11</sup> “U.S. Army to Sell Hellfire to Taiwan,” *Wireless News*, January 5, 2005;

<sup>12</sup> A State Department spokesman, in response to a press question at the State Department press briefing of March 20, 2002.

<sup>13</sup> Legislation in 2003, H.R. 441/ S. 243, was enacted on May 29, 2003. Ten days earlier, on May 19, 2003, the World Health Assembly decided not to consider a motion relating to Taiwan during its annual meeting in Geneva.

<sup>14</sup> The bill, S. 2092, was enacted as P.L. 108-235.

**Taiwan-PRC Contacts.** Official talks between China and Taiwan last occurred in October 1998, when Koo Chen-fu, Chairman of Taiwan's Straits Exchange Foundation (SEF) and Wang Daohan, president of the PRC's Association for Relations Across the Taiwan Straits (ARATS), held meetings in Shanghai.<sup>15</sup> But while official talks have remained stymied, indirect ties and unofficial cross-strait contacts have continued to grow and have seen significant recent breakthroughs. On January 29, 2005, Taiwan and the PRC launched the first non-stop direct charter flights flown in 55 years between the two adversaries. While temporary (the flights were scheduled only to reunite families and friends during the weeks surrounding the Lunar New Year holiday on February 9, 2005), the landmark agreement to have flights suggests that further momentum is possible. Even with the official restrictions that Taiwan continues to maintain on investment and trade with mainland China, Taiwan businesses are increasingly invested across the strait, although the exact figures remain unclear. Taiwan-China trade has also increased dramatically over the past decade, so that China now has surpassed the United States as Taiwan's most important trading partner. According to one report, statistics show Taiwan's total bilateral trade with the PRC rose to \$61.64 billion in 2004 — a 33.1% increase over 2003.<sup>16</sup>

This increasing economic interconnectedness with the PRC has put pressure on Taiwan's DPP government to further accommodate the Taiwan business community by easing restrictions on direct travel and investment to the PRC. But such accommodations are worrisome to the DPP's pro-independence political base in Taiwan, who believe that further economic ties to the mainland will erode Taiwan's autonomy and lead to a "hollowing out" of Taiwan's industrial base.<sup>17</sup> Thus, each Taiwan decision on economic links with the PRC represents an uneasy political compromise.

## China's Growing Global Reach

Many observers have begun to focus on the critical implications that China's economic growth and increasing international engagement could have for U.S. economic and strategic interests. To feed its voracious appetite for resources, capital, and technology, China has steadily and successfully sought trade agreements, oil and gas contracts, scientific and technological cooperation, and even multilateral security arrangements with countries both around its periphery and around the world. Dubbed the "charm offensive" by some observers, China's growing international economic engagement has gone hand-in-hand with expanding political influence. Although some believe that PRC officials appear more comfortable working with undemocratic

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<sup>15</sup> Koo Chen-fu, Taiwan's chief negotiator, died on January 2, 2005, at age 87. In what many interpreted as a conciliatory gesture, the PRC sent two senior officials — Sun Yafu, deputy director of the PRC's official Taiwan Affairs Office, and Li Yafei, secretary general of the semi-official ARATS — to attend Koo's funeral in Taiwan.

<sup>16</sup> According to the Foreign Board of Trade, cited by Agence-France Presse in *Taiwan News* online, March 3, 2005, [<http://www.etaiwannews.com>]. See also CRS Report RL31749, *Foreign Direct Investment in China*, by Dick Nanto and Radha Sinha.

<sup>17</sup> For instance, there are reportedly 300,000 Taiwan citizens now residing and working in Shanghai.

or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance to date has been unparalleled and unquestioned. A brief survey of China's recent international engagement hints at the potential for increasing Sino-U.S. competition for resources, power, and influence around the world.

**Asia.** China's improved relationships with its regional neighbors are particularly visible in Beijing's relations with the ten countries of the Association of Southeast Asian Nations, or ASEAN.<sup>18</sup> For decades prior to the mid-1990s, Sino-ASEAN relations were characterized by recurring clashes over territorial disputes, diplomatic deadlocks, and deep ASEAN concerns about China's military ambitions and its regional economic competitiveness.<sup>19</sup> But Sino-ASEAN regional cooperation has grown substantially since then. In addition to being part of an economic partnership in the ASEAN Plus Three (APT) grouping (including also Japan and South Korea, two U.S. military allies), China signed a free trade agreement with ASEAN in November 2004. Under the agreement, beginning July 1, 2005, all parties pledge to start lowering or cancelling tariffs on 7,000 kinds of items, with the goal of reaching full mutual free trade by 2010. Within ASEAN, China's relations with Burma are unique, as Beijing has provided Rangoon with substantial military, economic, and infrastructure development assistance. According to a reported internal Department of Defense (DOD) document, Beijing is building naval bases in Burma that will give China its only access to the Indian Ocean.<sup>20</sup>

In addition to ASEAN, China has also improved its relationship with India, with which it fought several border wars in the 1960s, and with Central Asia. On January 24, 2005, China and India began a "strategic dialogue," discussing terrorism, resource competition, and the U.S. role in Asia. In March or April 2005, PRC Premier Wen Jiabao will visit India — a visit Wen has been quoted as considering his "most important agenda item" in 2005.<sup>21</sup> With the Central Asian countries of the former Soviet Union, China has pursued both economic and security arrangements through the Shanghai Cooperation Organization (SCO), founded in 2001.<sup>22</sup> Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers. China also has negotiated energy deals with Australia, another U.S. regional ally, to supply liquid natural gas to southern China, and is expecting this year the completion of a feasibility study relating to a Sino-Australian free trade agreement.

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<sup>18</sup> First established in 1967, ASEAN in 2005 includes Brunei-Darassalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. The United States maintains military alliances with the Philippines and Thailand, and has significant naval and air base arrangements with Singapore.

<sup>19</sup> For background, see CRS Report RL31183, *China's Maritime Territorial Claims: Implications for U.S. Interests*.

<sup>20</sup> The internal DOD report was cited by a *Washington Times* reporter. Gertz, Bill, "China Builds up Strategic Sea Lanes," *Washington Times*, January 18, 2005.

<sup>21</sup> U.S. relations with India also have been improving in recent years.

<sup>22</sup> The SCO is a more recent expansion of the "Shanghai Five" formed in 1997. SCO members include China, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan.

**Japan.** Japan, considered the most important American ally in Asia, is a notable exception to China's recent regional diplomatic achievements. As with other Asian countries, China's trading relations with Japan have expanded; in 2004, China (including Hong Kong) surpassed the United States as Japan's largest trading partner,<sup>23</sup> but the political relationship remains hampered by the residual resentments of Japan's conquest and occupation of China during World War II. China routinely protests Japanese Prime Minister Koizumi's annual visits to pay tribute to Japanese war dead at the Yaksukuni Shinto Shrine, where war criminals are also enshrined. Since Koizumi first visited the shrine in 2001, China has used the issue to justify its refusal to engage in bilateral summitry, except as part of multilateral meetings. Historical animosities also plagued China's loss to Japan in an August 2004 soccer match, when Chinese fans rioted and spat on the visiting Japanese team and its fans.

Furthermore, since 2004 China's growing economic competitiveness and expanding regional presence have helped exacerbate its relations with Tokyo. China and Japan competed ferociously for access to Siberian oil, with Japan emerging the major winner in a contract to have a main pipeline built to Japan, with a smaller branch running to China. As a result of China's exploration activities in the Chunxiao Gas Field, in waters where Japan and Taiwan also have territorial claims, Tokyo has begun its own exploration activities in and around the Senkakus.

Japanese officials have cut Overseas Development Aid (ODA) to China by around half since 2000. In December 2004, Japan for the first time defined China as a potential security threat, and the following month Tokyo hosted a visit by Lee Teng-hui, a former president of Taiwan who is anathema to Beijing. These tensions appear to have brought Japan closer to U.S. policy positions in recent months. Japanese officials publicly have supported U.S. opposition to European Union (EU) plans to end an arms embargo to China, and on February 19, 2005, U.S. and Japanese officials issued a joint statement declaring a number of common strategic objectives for the first time in decades. These common objectives specifically included peaceful resolution of the Taiwan issue.

**Russia.** Energy resources and security issues also factor heavily into China's relations with Russia, where as noted above Beijing lost out to Japan in securing a monopoly pipeline supply from Siberian oil fields. Russia also meets regularly with PRC leaders through the forum of the Shanghai Cooperation Organization, where Russia is one of the six members. On February 2, 2005, Russia's President Vladimir Putin and visiting PRC State Councillor Tang Jiaxuan announced that their two countries would begin holding regular security consultations and at some point will hold joint military exercises.<sup>24</sup> According to Councillor Tang, China considers Russia its "main partner for strategic cooperation," and he emphasized that this was the first time that China had ever established national security consultations with a foreign government. Despite lingering historical tensions between the two, the PRC and Russia are widely thought to be seeking mutual common ground as a counterweight to U.S. global power.

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<sup>23</sup> In 2004, China did \$213 billion in trade with Japan. Sato, Shigeru, "Cooperate with Japan, Don't Compete," *Dow Jones Chinese Financial Wire*, February 3, 2005.

<sup>24</sup> "Russia, China Tighten Security Links," *China Daily*, Feb. 3, 2005.

**European Union.** In recent years, China has courted the European Union (EU) intensively, and Sino-EU contacts have broadened significantly as a result. On December 8, 2004, China and the EU held their 7<sup>th</sup> Annual EU-China Summit in The Hague, with Premier Wen Jiabao leading the PRC delegation. According to a statement at the time by European Commission President Jose Manuel Barroso, the EU considers China a “strategic partner” and has made developing Sino-EU ties “one of our top foreign policy objectives in the years to come.”<sup>25</sup> Perhaps nothing illustrates China’s growing importance in Europe as much as the increasing likelihood that the EU shortly will lift the arms embargo that it (along with the United States) has maintained against China since the Tiananmen Square crackdown in 1989. France and Germany have been the chief proponents of lifting the embargo, but recently the United Kingdom also has become a supporter, despite strong U.S. objections. To date, the American arguments in opposition — that a Chinese military equipped with improved EU-provided defense technologies could use those technologies to threaten Taiwan and U.S. forces in Asia, and that the PRC has not made sufficient improvements in its human rights record — have been ineffective in slowing the EU momentum toward lifting the embargo.

As a result, the China arms embargo issue has become another irritant in U.S. relations with its NATO allies. The U.S. House of Representatives has already acted on a measure urging the EU to maintain its embargo, passing H.Res. 57 on February 2, 2005, by a vote of 411-3, and the Senate is considering a similar measure. Senator Lugar, Chairman of the Senate Foreign Relations Committee, has been quoted as saying he would support curbs on sales of advanced military technology to EU countries unless the EU could give strong assurances that advanced technologies would not be diverted to China should the embargo be lifted.<sup>26</sup>

**Middle East and Africa.** For years, China has sold missile technology and other sensitive materials to countries of security concern to the United States, such as Iran, Syria, Libya, and Iraq. More recently, China also is becoming a major energy player in the Middle East with some of these same countries. PRC negotiators, for instance, were able to sign significant oil deals with Iran in 2004, including a proposal that allows a Chinese company develop Iran’s Yadavarn oil field in exchange for China’s agreeing to buy Iranian liquified natural gas.<sup>27</sup> In addition, China’s trade with the six Gulf Cooperation Council (GCC) countries has steadily increased in the last few years, reaching \$20 billion in 2004 (although this is still small by comparison with the United States, whose trade with Saudi Arabia alone in 2004 was \$26 billion).<sup>28</sup>

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<sup>25</sup> [[http://europa.eu.int/comm/external\\_relations/china/summit\\_1204/ip04\\_1440.htm](http://europa.eu.int/comm/external_relations/china/summit_1204/ip04_1440.htm)].

<sup>26</sup> In an interview with the *Financial Times*, February 21, 2005, p. 8.

<sup>27</sup> Lee, Don, “China Barrels Ahead in Oil Market...,” *Los Angeles Times*, November 14, 2004, p. C-1.

<sup>28</sup> The six GCC countries are the United Arab Emirates (UAE), Saudi Arabia, Bahrain, Kuwait, Qatar, and Oman. Statistics for two-way U.S.-Saudi Arabia trade are from the U.S. Census Bureau, *Foreign Trade Statistics*.

In 2000, China and African countries formed the China-Africa Cooperation Forum (CACF), proposing that the CACF meet every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the CACF's first Ministerial Conference in October of that same year. China has also targeted resource-rich African nations such as Sudan and Angola for energy-related development.<sup>29</sup> Senior Chinese leaders in 2004 visited oil-producing states, including Algeria and Gabon, and news reports early in 2005 alleged that a state-owned PRC energy company, China Shine, planned to drill exploratory wells in a Namibian concession that was once held by Occidental Petroleum.<sup>30</sup> China has also shown an interest in iron ore deposits in Liberia and Gabon. In addition to resource-related imperatives, some observers have suggested that there is a political dynamic to China's push into Africa, as 7 of the 25 countries that still maintain official diplomatic relations with Taiwan are on the African continent.<sup>31</sup>

**Western Hemisphere.** There is also a political dynamic in China's expanding economic and trade relationships with Latin America and the Caribbean, where another 12 countries still maintain official diplomatic relations with Taiwan.<sup>32</sup> In addition, China's growing presence in the region also may have political and economic consequences for the United States. In September 2004, China sent a "special police" contingent to Haiti — one of Taiwan's official relationships — marking Beijing's first deployment of forces ever in the Western Hemisphere. A primary focus in the U.S.-Latin America debate over the U.S.-Central America Free Trade Agreement (CAFTA) is how to keep Latin American textile manufacturing in the region viable in the face of the expected surge in Chinese textile industry exports with the end of the Multi-Fiber Arrangement on December 31, 2004. On January 25, 2005, Chile became the first Latin American country to hold bilateral negotiations with China to craft a Sino-Chilean Free Trade Agreement. A second round is expected in April 2005. According to a PRC news source, Beijing hopes that the Sino-Chile agreement can become a model for future similar agreements with other Latin American countries.<sup>33</sup>

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<sup>29</sup> China objected to the U.N. vote threatening oil sanctions against Sudan unless it ceased atrocities in the Darfur region. Ultimately, the PRC abstained on the September 19, 2004 vote, but promised to veto any future sanctions.

<sup>30</sup> Boxell, James, "Circle Oil in Dollars 50m Africa Drilling Deal with Chinese Group," *Financial Times* (London edition), January 28, 2005, p. 25.

<sup>31</sup> In 2005, Taiwan maintains official relations with Burkina Faso, Chad, the Gambia, Malawi, Sao Tome and Principe, Senegal, and Swaziland.

<sup>32</sup> Taiwan's official relations in the region include Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines. On January 20, 2005, Grenada formally ended its diplomatic relations with Taiwan and established diplomatic relations with the PRC.

<sup>33</sup> Jiang Wei, "China-Chile FTA Talks Smooth," *China Daily*, January 31, 2005, online at [[http://www.bilaterals.org/article.php3?id\\_article=1237](http://www.bilaterals.org/article.php3?id_article=1237)].

Energy concerns also play a role in China's Latin-American diplomacy, particularly in Venezuela, which now accounts for almost 15% of U.S. oil imports, and in Brazil, with whom China announced a \$10 billion energy deal in November 2004.<sup>34</sup> As a consequence of Venezuelan President Hugo Chavez's visit to Beijing in December 2004 and PRC Vice-President Zeng Qinghong's visit to Venezuela in January 2005, the two countries reportedly signed a series of agreements that committed the China National Petroleum Corporation to spend over \$400 million to develop Venezuelan oil and gas reserves.<sup>35</sup> Given the current poor state of U.S.-Venezuelan relations under the Chavez government, some American observers worry that Venezuelan energy agreements with China ultimately may serve to divert oil from the United States.

Chinese economic and energy concerns extend also to Canada. On January 20, 2005, at the conclusion of Canadian Prime Minister Paul Martin's visit to China, the two governments signed a series of agreements to promote international cooperation on a range of issues and to make energy issues in particular — including gas, nuclear, clean energy, and oil sources, primarily massive “oil sands” in Alberta — into “priority areas” of mutual cooperation. Energy discussions are to be maintained through the Canada-China Joint Working Group on Energy Cooperation, formed under a 2001 memorandum of understanding. A major Canadian oil-pipeline company, Enbridge, is said to be planning a major (\$2.2 billion) pipeline project to transport oil from Alberta's oil-sands deposits to the west coast for shipment to wider markets including China.<sup>36</sup>

## Economic Issues

The PRC is now the third-largest U.S. trading partner, with total U.S.-China trade in 2004 estimated at \$232 billion. Ongoing issues in U.S.-China economic relations include the substantial and growing U.S. trade deficit with China (\$162 billion in 2004), repeated PRC failures to protect U.S. intellectual property rights, and the PRC's continuing restrictive trade practices, such as its refusal to date to float its currency.<sup>37</sup>

**Intellectual Property Rights.** China's lack of protection for intellectual property rights (IPR) has become one of the most important issues in U.S.-China bilateral trade. According to calculations from U.S. industry sources, IPR piracy has cost U.S. firms \$2.5 billion in lost sales, and the IPR piracy-rate in China for U.S.

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<sup>34</sup> The PRC is also investing in energy deals in Ecuador and in offshore projects in Argentina, according to the *New York Times*, “China's Oil Diplomacy in Latin America,” March 1, 2005, p. 6.

<sup>35</sup> Bajpae, Chietigi “China's Quest for Energy Security,” *Power and Interest News Report*, February 25, 2005, online at [<http://www.pinr.com/>].

<sup>36</sup> Mortished, Carl, “Chinese Chase Canadian Oil,” *The Times* (London), March 5, 2005, p. 36

<sup>37</sup> See CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne Morrison, for further details.



products is estimated at around 90%.<sup>38</sup> U.S. officials routinely have urged Beijing to crack down on IPR piracy, and Secretary of Commerce Don Evans stressed in his last official visit to China in January 2005 that China needed to do better at IPR protection.

**Currency Valuation.** Another ongoing concern that arose in the 108<sup>th</sup> Congress involved the PRC's decision to keep the value of its currency low with respect to the dollar, and indirectly with the yen and euro. Since 1994, the PRC has pegged its currency, the renminbi (RMB), to the U.S. dollar at a rate of about 8.3 RMB to the dollar. In 2003, many U.S. policymakers concluded that this RMB/dollar peg kept the PRC's currency artificially undervalued, making PRC exports artificially cheap and making it harder for U.S. producers to compete. U.S. critics of the PRC's currency peg charged that the PRC unfairly manipulated its currency, and they urged Beijing either to raise the RMB's value or to make it freely convertible subject to market forces. Members of the 108<sup>th</sup> Congress introduced multiple bills (such as H.R. 3058) to require the U.S. Secretary of the Treasury to analyze the PRC's exchange rate policies and, depending on the results of that analysis, to impose tariffs on PRC products to offset the price advantage the PRC is believed to gain from its currency policies. On December 3, 2004, the U.S. Treasury Department issued its biannual report on global foreign exchange, reporting that no major U.S. trading partner — most notably the PRC — had met the technical definition of currency manipulation.

## National Security Issues

**North Korea.** North Korea's announcement on February 10, 2005 — that it possessed nuclear weapons and would no longer be participating in the six-party talks hosted by China — not only could affect U.S.-China relations but could significantly complicate U.S. policy on the Korean Peninsula. The road to the current stand-off began in October 2002, when Pyongyang told visiting U.S. officials that it was conducting a uranium enrichment program in violation of its pledges under the 1994 U.S.-North Korean Agreed Framework. The crisis continued to escalate as the United States, Japan, South Korea, and other member nations of KEDO (the Korean Peninsula Energy Development Organization) suspended energy assistance to North Korea and as North Korea withdrew from the Nuclear Non-Proliferation Treaty and restarted its mothballed nuclear reactor at Yongbyon. The Bush Administration rejected North Korean demands for bilateral talks to resolve the crisis, and instead consented only to six-party talks involving North and South Korea, the United States, the PRC, Japan, and Russia. By the end of the 108<sup>th</sup> Congress, three rounds of six-party talks had produced no progress on the North Korea nuclear issue.

As North Korea's sole military ally, the PRC could be drawn into any armed conflict involving North Korea — meaning the possibility of U.S.-China military confrontation, an ally of South Korea. In addition, since the PRC is North Korea's principal trade partner, any decision by the international community to impose

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<sup>38</sup> International Intellectual Property Alliance, *2004 Special 301 Report: People's Republic of China*, February 2005, cited in CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne Morrison.

sweeping economic sanctions against North Korea would appear to require PRC support. Lack of that support would undermine any sanctions effort and also damage U.S.-China relations. By the same token, collapse of the fragile North Korean regime could have equally unhappy consequences for the PRC, leading to floods of North Korean refugees into China and to the possible advance of U.S. military forces from the South Korean side of the demilitarized zone to the PRC border.

PRC officials have repeatedly emphasized that China supports a non-nuclear Korean peninsula. This support is thought to be genuine, since an unpredictable North Korea armed with nuclear weapons could have unpleasant consequences for Beijing — such as the creation of nuclear weapons programs in currently non-nuclear neighbors like Taiwan, Japan, and South Korea, or an accelerated U.S. commitment for a regional missile defense program, to name only two. But Beijing has stopped short of promising to put further pressure on North Korea, and in fact continues to prop up the North Korean regime with supplies of food and fuel and to advocate bilateral U.S.-North Korean dialogue.<sup>39</sup>

**Weapons Proliferation.** For many years, U.S. officials and Members of Congress have been concerned about the PRC's track record of weapons sales, technology transfers, and nuclear energy assistance to certain countries in the Middle East and South Asia, particularly to Iran and Pakistan. While some U.S. officials have grown more confident that the PRC is changing its proliferation policies, congressional and other critics charge that such confidence is misplaced.<sup>40</sup> They point out that for years, reputable sources have reported China to be selling ballistic missiles and technology for weapons of mass destruction (WMD) in the international market, primarily in the Middle East.<sup>41</sup> Although these allegations have always created problems in Sino-U.S. relations, they have taken on new and potentially significant implications given the Administration's entrenched suspicions about Iraq's WMD program as well as later disclosures that both Iran and North Korea are actively pursuing nuclear weapons programs. The PRC has had close relationships with all three countries in the past, including sales of military equipment that could threaten U.S. forces in the region and missiles that could enhance a nuclear weapons capability.<sup>42</sup>

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<sup>39</sup> "U.S. Rebuffs Direct Talks with North Korea," *Korea Times*, March 9, 2005; "China Envoy Heads to U.S. for North Korea Nuclear Talks," *Reuters*, March 8, 2005.

<sup>40</sup> As reasons for such confidence, some point to the past decade, when the PRC has: 1992 — promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear Non-Proliferation Treaty (NPT); 1993 — signed the Chemical Weapons Convention (CWC); 1996 — signed the Comprehensive Test Ban Treaty; and 1997 — joined the Zangger Committee of NPT exporters.

<sup>41</sup> For details, see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley Kan.

<sup>42</sup> Iran, for instance, has purchased from the PRC small numbers of SA-2 surface-to-air missiles, F-7 combat aircraft, fast-attack patrol boats, and C-802 anti-ship cruise missiles. Some Members of Congress have questioned whether Iran's possession of C-802s violates the Iran-Iraq Arms Non-Proliferation Act of 1992 (50 U.S.C. § 1701), which requires sanctions on countries that sell destabilizing weapons to Iran or Iraq.

**Military Contacts.** Once one of the stronger components of the relationship, U.S.-China military relations have never fully recovered after they were suspended following the 1989 Tiananmen Square crackdown. Nevertheless, both countries cautiously resumed military contacts during the 108<sup>th</sup> Congress, although efforts to reenergize military ties met with repeated setbacks. In January 2005, several news accounts tentatively reported that U.S. Secretary of Defense Donald Rumsfeld is considering making his first trip as Secretary to China later this year.<sup>43</sup> (See appendix at the end of this report for a list of recent U.S.-China official talks.)

## Human Rights

The George W. Bush Administration generally has shifted away from the broad and generalized approach U.S. Administrations traditionally have followed on human rights in China. The White House approach instead appears to favor more selective, intense pressure on individual cases involving human rights and on rule of law. During the 108<sup>th</sup> Congress, the PRC government periodically acceded to this U.S. pressure and released early from prison political dissidents, usually citing health reasons. On March 4, 2004, for instance, the PRC released on medical parole one of its best-known political prisoners, Wang Youcai, a co-founder of the short-lived China Democracy Party. Days earlier, the PRC released an imprisoned Tibetan nun and announced that the prison sentence of Uighur businesswoman Rebiya Kadeer would be reduced by one year, making her eligible for release in 2006. The Congressional-Executive Commission on China (CECC), a body created by P.L. 106-286 and consisting of U.S. government officials and Members of Congress, maintains a “Political Prisoner Database” on such prisoners in the PRC. The registry can be found on the CECC website, [<http://www.cecc.gov/>].

In a development found unusual by some observers, on January 25, 2005, the PRC released a list of political prisoners (variously reported as a list of either 51 or 56 names) who were granted reductions in their sentences or who were being considered for early release. The list, originally given to the U.S.-based human rights group the Dui Hua Foundation, was notable because the PRC rarely volunteers information about prisoners and because some names on the list reportedly were previously unknown detainees.<sup>44</sup> On February 8, 2005, a U.S. State Department official said that the United States had no comment on the list at this time. Skeptics have suggested that the list is a PRC effort to dissuade the U.S. government from introducing a resolution criticizing China’s human rights record at the 61<sup>st</sup> Session of the U.N. Commission on Human Rights in Geneva from March 14 to April 22, 2005.

**Religious Freedom.** In recent years, the PRC has continued to crack down on unauthorized religious groups and to restrict the freedoms of ethnic communities that seek greater religious autonomy. Much of this repression focuses on what PRC

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<sup>43</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

<sup>44</sup> The Dui Hua Foundation, headed by John Kamm, is a San Francisco-based human rights organization. It refers to the prisoner list on its website, [<http://www.duihua.org/>].

officials have classified as illegal religious “cults” such as the Falun Gong and the Three Grades of Servants Church. Reports about religious freedom in China suggest that state persecution of some religious and spiritual groups will likely continue as long as the Chinese Communist Party (CCP) perceives these groups to be threatening to its political control. However, religions in the PRC have also attracted increasing numbers of adherents as well.

In the China section of its most recent annual *International Religious Freedom Report*, released September 15, 2004, the U.S. Department of State judged China’s record on religious freedom to be poor and substantially the same as during recent years. The Secretary of State again designated China as a country of particular concern in 2003 — a designation the PRC has earned each year since 1999. The State Administration for Religious Affairs, SARA, (formerly known as the Religious Affairs Bureau, or RAB) continues to require churches to register with the government. Churches that are unregistered — so-called “house churches” — continue to be technically illegal and often repressed by the government. As in the past, however, treatment of unregistered churches varies widely from locality to locality, with some local officials highly repressive and others surprisingly tolerant.

Some suggest that in the 21<sup>st</sup> century the Communist Party has sought ways to recognize religion as an integral part of Chinese society and to support religious practices that it deems to perform positive social and political functions. At a national work conference on religion in 2001, for instance, then-Party Secretary Jiang Zemin stressed religion’s positive role in society. On the other hand, by 2004 it appeared that Party officials had grown more concerned about religion’s “destabilizing” effects. In January 2004, SARA held a national work conference on religion that instead emphasized what it saw as negative and destabilizing aspects of religious observance, including cults and the growing circulation of foreign religious materials. As they have in the past, Communist Party officials continue now to stress that religious belief is incompatible with Party membership.

**Tibet.** The political and cultural status of Tibet remains a difficult issue in U.S.-China relations and a matter of debate among U.S. policymakers. Controversy continues over Tibet’s current political status as part of China, the role of the Dalai Lama and his Tibetan government-in-exile, and the impact of Chinese control on Tibetan culture and religious traditions. The U.S. government recognizes Tibet as part of China and has always done so, although some dispute the historical consistency of this U.S. position. But the Dalai Lama, Tibet’s exiled spiritual leader, has long had strong supporters in the U.S. Congress who have continued to pressure the White House to protect Tibetan culture and give Tibet greater status in U.S. law. It was largely because of this congressional pressure that in 1997, U.S. officials created the position of Special Coordinator for Tibetan issues, tasked with the specific mission of helping to promote talks between the Dalai Lama and Beijing. The current Special Coordinator — Paula Dobriansky, Under Secretary of State for Global Affairs — is the highest-ranking U.S. official to have held this position.<sup>45</sup>

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<sup>45</sup> For background and details, see CRS Report RL30983, *Tibet, China, and the 107<sup>th</sup>* (continued...)

Although dialogue between the PRC and the Tibetan exile community remains officially stalled, hopes for renewed momentum were raised by a number of unusual developments in 2002-2003 that are outside the scope of what has come to be expected of Beijing's relations with the Dalai Lama's representatives. In 2002, the Dalai Lama's older brother, Gyalo Thondup, accepted a PRC invitation to spend several weeks in Tibet on a private visit. On at least three occasions since then, the PRC government invited to China and to Lhasa (Tibet's capital) delegations from the Tibetan community led by the Dalai Lama's special envoy in the United States, Lodi Gyari. Further contacts and developments along these lines would reinforce the view that a quiet dialogue and perhaps compromise may be underway.

**Separatists.** For years, the PRC government also has maintained a repressive crackdown against Tibetans and Muslims, particularly against Uighur separatists in the Xinjiang-Uighur Autonomous Region. Although U.S. officials warned after September 11<sup>th</sup>, 2001 that the global anti-terror campaign should not be used to persecute Uighurs or other minorities with political grievances against Beijing, some believe that the U.S. government made a concession to the PRC on August 26, 2002, when it announced that it was placing one small group in China, the East Turkestan Islamic Movement, on the U.S. list of terrorist groups.

U.S. policies on Uighurs and on terrorism faced a unique test during the 108<sup>th</sup> Congress, when it became known that approximately 22 Uighur Muslims were being held by U.S. forces at Guantanamo Bay after having been apprehended during the U.S. strikes against the Taliban in Afghanistan. By May of 2004, international human rights groups were reporting their concerns about the planned release of Uighur prisoners that U.S. forces had decided were of "no intelligence value." These prisoners, they feared, if repatriated to China, would be executed or imprisoned as terrorists.<sup>46</sup> In October 2004, in an interview with the *Far Eastern Economic Review*, Secretary of State Colin Powell said that U.S. officials were still reviewing the status of the Uighur prisoners because of U.S. fears that returning them to possible persecution in China would "be inconsistent...with our obligations to comply with international law and consistent with [the] Geneva Convention..."<sup>47</sup> Later press reports said that a number of U.S. allies had refused requests to accept the prisoners.<sup>48</sup>

**Family Planning Policies.** Because of allegations of forced abortions and sterilizations in PRC family planning programs, direct and indirect U.S. funding for coercive family planning practices is prohibited in provisions of several U.S. laws. In addition, legislation in recent years has expanded these restrictions to include U.S.

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<sup>45</sup> (...continued)

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<sup>46</sup> James, Ian, "Guantanamo Prisoners from China's Muslim Northwest Face Danger If Returned Home, Human Rights Groups Warn," *Associated Press Newswires*, May 28, 2004.

<sup>47</sup> Heibert, Murray, and Susan Lawrence, in an interview with Colin Powell, *Far Eastern Economic Review*, cited in Political Transcripts by Federal Document Clearing House, October 19, 2004.

<sup>48</sup> Sevastopulo, Demetri, "U.S. Fails to Find Countries to Take Uighurs," *Financial Times*, October 28, 2004, p. 5.

funding for international and multilateral family planning programs, such as the U.N. Population Fund (UNFPA), that have programs in China. In the 108<sup>th</sup> Congress, section 560(d) of H.R. 4818 (P.L. 108-447), the Consolidated Appropriations Act, 2005, prohibited U.S. funds from being made available to UNFPA for a country program in China.

While the PRC has maintained its restrictive and at times coercive “one-child” policy for several decades, there are growing indications that the government may be re-thinking this policy. Early in 2004, China’s new leadership appointed a task force to study the country’s demographic trends and their implications for economic development. In October 2004, reports surfaced that Beijing was considering at least one proposal to eventually scrap the one-child policy because of currently low PRC birth rates and the economic implications this has for supporting China’s huge aging population. On January 6, 2005, the director of China’s National Population and Family Planning Commission stated that the government intended to modify criminal law to make it illegal to selectively identify and abort female fetuses.<sup>49</sup> And on January 21, 2005, an official from the PRC Ministry of Education stated that the government would be lifting the long-standing ban on marriage and childbearing for college and graduate students.

**Social Stability.** The far-reaching economic changes the PRC continues to undergo have led to increasing disgruntlement among a number of social groups. Peasants and farmers in rapidly developing parts of China are under heavy tax burdens and falling farther behind their urban contemporaries in income. Some have had their farmland confiscated by local government and Party officials. Officials then sell the confiscated land for development, often reportedly offering little or no compensation to the peasants from which the land was seized, resulting in sometimes sizable protests. In an effort to address rising rural complaints, the government early in 2005 proposed a new measure — the “2005 Number 1 Document” — to reduce taxes on rural peasants, increase farm subsidies, and address the widening income gap between urban and rural residents. Rising labor unrest, particularly in northern and interior cities, is another particularly troubling issue for Beijing, a regime founded on communist-inspired notions of a workers’ paradise. Increasing labor unrest also has placed greater pressure on the authority and credibility of the All-China Federation of Trade Unions (ACFTU), China’s only legal labor organization.<sup>50</sup>

## Hong Kong Democratization

After weeks of speculation, the news on March 10, 2005 that Hong Kong’s unpopular Chief Executive, Tung Chee-hwa, finally had submitted his resignation — two years before his term expires — have fueled speculation about Hong Kong’s

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<sup>49</sup> PRC statistics show that nearly 120 boys are born for every 100 girls — a gender ratio suggesting selective abortion of female fetuses. The “natural” male-female gender ratio is about 105-100, according to a United Nations estimate. “Analysts View Problems with Huge PRC Gender Gap,” *South China Morning Post*, January 7, 2005.

<sup>50</sup> The ACFTU is controlled by the Communist Party. For background and further details, see CRS Report RL31164, *China: Labor Conditions and Unrest*.

political future and relations with China, its sovereign.<sup>51</sup> Although selected as Chief Executive by an 800-member Election Committee in 1997, it is widely accepted that Tung was hand-picked by Beijing. Observers are waiting to see whether his ultimate replacement suggests that Beijing is easing or deepening its involvement in Hong Kong politics.

Controversy has grown steadily in Hong Kong since late summer 2003, when Mr. Tung's administration attempted to enact anti-sedition laws required by Article 23 of Hong Kong's de-facto constitution, the Basic Law. These, known as the "Article 23" proposals, ultimately were withdrawn in September 2003, after massive public protests were held to oppose them. As a consequence of the protests, Mr. Tung pledged to lay out a timetable for public consultations on democratic reforms in 2007. The withdrawal of the Article 23 proposals was widely seen as a victory for Hong Kong autonomy and a setback for the Tung government and the PRC, which had publicly supported the Article 23 proposals. This controversy was followed in January 2004, by peaceful demonstrations involving tens of thousands of Hong Kong people in favor of implementing universal suffrage to elect the next Chief Executive in 2007 and the next Legislative Council in 2008.

In his annual policy address on January 7, 2004, Mr. Tung announced that instead of following through on his 2003 promise for public consultations in Hong Kong, he was appointing a task force to hold consultations with Beijing on the subject of democratic reform. Immediately following the Tung address, the PRC's official news agency, *Xinhua*, announced that Hong Kong must consult Beijing *prior* to moving forward on any democratic reform development. PRC rhetoric continued to strengthen in subsequent months.

In April 2004, Beijing dealt Hong Kong's democratic aspirations a stinging setback by initiating an "interpretation" of the Basic Law to the effect that universal suffrage not only was not allowed as early as 2007, but that Beijing, and not Hong Kong, would determine the proper pace for democratic reforms. Critics maintained that the Beijing decisions contravened provisions in Hong Kong's Basic Law leaving decisions on democracy development up to Hong Kong. Despite widespread public sentiment against the PRC decisions, public disaffection did not appear to translate into significant gains for democracy proponents in Hong Kong's September 12, 2004 legislative elections, in which half of the 60-seat body was elected by universal suffrage and half by "functional constituencies."<sup>52</sup> Democrats made fewer gains than the party had hoped, winning 25 of the 60 seats.

Beijing's decisions on Hong Kong have particular relevance for Taiwan, since Beijing has held out the "one country, two systems" approach for Hong Kong as a

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<sup>51</sup> Speculation about his resignation had been rampant since February 28, 2005, when Mr. Tung was appointed to the Chinese People's Political Consultative Conference, a political advisory body in mainland China. Order of succession under the Basic Law is that the Chief Secretary — Donald Tsang — would assume the CE position until a replacement is named.

<sup>52</sup> Functional constituencies are constituencies of professional groups — doctors, lawyers, teachers, accountants — each group of which can elect one or more candidates to represent the group's interests in the legislature.

model for Taiwan's eventual reunification with mainland China. The current controversy over democratization in Hong Kong also could affect U.S. policy toward Hong Kong, which is set out in the U.S.-Hong Kong Policy Act of 1992 (P.L. 102-383). In addition to requiring annual U.S. government reports on Hong Kong's conditions through 2006, this Act allows the United States to treat Hong Kong more leniently than it treats the PRC on the condition that Hong Kong remains autonomous. Under the Act, the President has the power to halt existing agreements with Hong Kong or take other steps if he determines that Beijing is interfering unduly in Hong Kong's affairs.<sup>53</sup>

## **U.S. Policy Implications**

In the past year, some U.S. observers have become increasingly concerned about China's growing reach in the world and what it means for global U.S. economic and political interests, U.S.-China relations, and concerns for Taiwan's security. The 109<sup>th</sup> Congress will be dealing with an emerging debate in U.S. policy and academic circles about whether U.S. interests would best be served by accommodating China's rise or seeking to contain it.

According to one school of thought, China's economic and political rise in the world is inevitable and needs to be accommodated. In this view, as China becomes more economically interdependent with the international community, it will have a greater stake in pursuing stable international economic relationships. Growing wealth in the PRC is likely to encourage Chinese society to move in directions that will develop a materially better-off, more educated, and cosmopolitan populace. Over time, this population could be expected to press its government for greater political pluralism and democracy — two key U.S. objectives. Therefore, from this perspective, U.S. policy should seek to work more closely with the PRC, not only to encourage these positive long-term trends, but to seek ways to mutually benefit by cooperating on important global issues such as alternative energy sources, climate change, and scientific and medical advancements. Ultimately, some proponents of accommodation say, the United States simply will have to make room for the economic and political appetites of the superpower that China is likely to become. Viewing the PRC as a "threat" or attempting to contain it, these proponents say, could produce disastrous policy consequences for U.S. interests. In addition to possible military conflict with the PRC, they assert, these consequences could include a breakdown in PRC governance, a fragmentation of the country itself, the creation of greater Chinese nationalism with a strong anti-American bias, and an increasingly isolated United States that the international community may see as out of step with global trends.

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<sup>53</sup> A specific intention of the Hong Kong Policy Act was to permit the U.S. government to treat Hong Kong differently from the way it treats the rest of China in U.S. law. Thus, the United States has an extradition treaty with Hong Kong but not with China; maintains a liberalized export control regime with Hong Kong but a restrictive one with China; and gives Hong Kong permanent most-favored-nation (MFN) trade status — or "normal trade relations" as it is now known — but gave that status to China separately upon its accession to the WTO.



Other proponents of the “inevitability” of China’s rise stress the extreme competitive challenges of China’s growing power which, even if benign, pose potentially huge consequences for U.S. global interests. Beijing officials, say this group, view the world as a state-centered, competitive environment where power is respected, and PRC leaders are determined to use all means at their disposal to increase their nation’s wealth, power, and influence. A militarily muscular China with substantial international economic ties will be able to wield considerable political power that could prompt U.S. friends and allies to make different choices, eroding U.S. influence around the world. The EU’s inclination to lift its arms embargo against China despite strong U.S. objections is cited as an example of this trend. The United States, they argue, should develop a comprehensive strategic plan in order to counter China’s growing power by strengthen its existing regional alliances and make new ones, expand overseas investments, sharpen American global competitiveness, and maintain a robust military presence in Asia and elsewhere as a counterweight to growing PRC power and influence.

Others in the American policy debate see less benevolent intentions in China’s growing power. PRC leaders, they argue, may be portraying their growth as a “peaceful rise” with no harmful consequences, but actually they are biding their time, simply conforming to many international norms as a strategy while China is still weak. In reality, these proponents say, Beijing seeks at least to erode and at best to supplant U.S. international power and influence. In conducting their international relations, they maintain, Chinese leaders seek to cause rifts in U.S. alliances, create economic interdependence with U.S. friends, and arm U.S. enemies. Despite the statements of support for the U.S. anti-terrorism campaign, according to this view, the PRC’s repeated violations of its non-proliferation commitments have actually contributed to strengthening nations that harbor global terrorists. Furthermore, they maintain that the PRC under its current repressive form of government is inherently a threat to U.S. interests, and that the Chinese political system needs to change dramatically before the United States has any real hope of reaching a constructive relationship with Beijing. From this perspective, U.S. policy should focus on mechanisms to change the PRC from within while remaining vigilant and attempting to contain PRC foreign policy actions and economic relationships around the world where these threaten U.S. interests.

## **Major Legislation<sup>54</sup>**

### **H.Res. 57 (Hyde)**

Urging the European Union to maintain its arms embargo on the People’s Republic of China. Introduced on February 1, 2005; passed House on February 2, 2005, by a vote of 411-3.

### **H.Con.Res. 76 (Miller)**

Expressing the sense of Congress that the United States should strongly oppose China’s anti-secession law with respect to Taiwan. Introduced on February 17, 2005, and referred to the House Committee on International Relations.

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<sup>54</sup> For legislative action during the 108<sup>th</sup> Congress, see CRS Report RL31815, *China-U.S. Relations During the 108<sup>th</sup> Congress*, by Kerry Dumbaugh

**H.R. 728 (Sanders)**

To withdraw normal trade relations (NTR — formerly known as most-favored-nation status, or MFN) from the PRC. Introduced February 9, 2005, referred to House Ways and Means Committee.

**S. 295 (Schumer)**

Authorization of a 27.5% import duty on imports of PRC-made goods or agricultural products unless the President certifies to Congress that China is not indulging in unfair trade practices. Introduced on February 3, 2005, referred to Senate Committee on Finance.

## Chronology

- 02/24/05** — Taiwan’s President Chen and PFP opposition leader James Soong agreed to relax restrictions on business ties with China. Chen also intimated he was open to discussions of eventual reunification with China if Beijing showed “goodwill.”
- 02/23/05** — EU Trade Commissioner Peter Mandelson demanded restrictions on imports of Chinese textiles.
- 02/22/05** — Speaking in Europe during his EU tour, President Bush expressed “deep concern” that the EU is contemplating lifting its arms embargo against China.
- 02/21/05** — In an interview published by the *Financial Times*, Senator Richard Lugar said he would support curbs on sales of advanced military technology to EU countries if the EU lifted its arms embargo against China, unless the EU could give strong assurances that advanced technologies would not be diverted to China.
- 02/21/05** — According to the *Asian Wall St. Journal*, the U.S. Export-Import Bank made a preliminary commitment to provide Westinghouse Electric with a \$5 billion package enabling it to build four nuclear plants in China.
- 02/19/05** — The United States and Japan issued a joint statement describing mutual security concerns and announcing a new joint security agreement.
- 02/11/05** — In Canberra, Australian Trade Minister Mark Vaile expressed confidence that Australia could sign a free-trade agreement with China by the end of 2007.
- 02/11/05** — The *Asia Times* reported that China had become India’s second-largest trading partner in 2004, surpassed only by the United States. The same report stated that in 2004, “the European Union breezed past Japan and the U.S. to become [China’s] biggest trading partner,” with bilateral trade at \$177.28 billion (a 33.6% increase over 2003.)

- 02/10/05** — For the first time, North Korea publicly declared that it had manufactured nuclear weapons, and stated that it would not be resuming its participation in six-party talks.
- 02/09/05** — Speaking during her European visit on the subject of lifting the EU arms embargo to China, Secretary of State Condoleezza Rice stressed U.S. “deep concerns about the military balance in east Asia.”
- 02/09/05** — The U.S. Chamber of Commerce announced it was asking the Administration to initiate legal proceedings against China in the WTO for failing to do more to end intellectual property rights violations.
- 02/09/05** — According to the *New York Times*, Secretary of Defense Donald Rumsfeld has tentatively agreed to visit China, potentially to revive military-to-military ties. It would be his first visit there as Secretary.
- 02/08/05** — A draft bill in Japan proposed allowing missile defense units in Japan’s Self-Defense Force (SDF), during an emergency, to launch interceptor missiles without the time-consuming process of consulting Japanese Security Council or Cabinet approval.
- 02/08/05** — An article in the *Financial Times* reported that China’s Ministry of Agriculture had approved 2 new bird flu vaccines.
- 02/03/05** — Secretary of State Condoleezza Rice began a seven-day visit to Europe. The EU’s probable decision to lift its arms embargo on China later this year is expected to be a key topic of discussion.
- 02/03/05** — The Senate Energy Committee held hearings on the Energy Information Administration 2005 Annual Energy Outlook. China’s growing energy needs featured prominently.
- 02/03/05** — By a vote of 411-3, the U.S. House of Representatives passed a non-binding measure condemning the EU’s plans to lift the arms embargo against China imposed after the Tiananmen crackdown of 1989.
- 02/02/05** — Members of the House signed a bipartisan letter to Secretary of State Condoleezza Rice asking her to help with the Department of State’s foot-dragging over transmitting congressional notifications for arms sales to Taiwan.
- 02/01/05** — Two senior PRC officials arrived in Taiwan to attend the funeral of Koo Chen-fu, Taiwan’s chief cross-strait negotiator, who died on January 3, 2005.
- 02/01/05** — According to the *Asian Wall St. Journal*, PRC officials issued emergency orders relating to an outbreak of meningitis in China that had killed 16 people since December 20, 2004. (P. A2)

- 01/09/05** — The Chair of Taiwan’s Mainland Affairs Council (MAC) (Joseph Wu), said that China’s proposed anti-secession law would go farther than the “one-China” policy in defining Taiwan “as an inseparable part of the PRC.” Any statement taking issue with this position, said Wu, could be classed as treason.
- 01/08/05** — According to the *Los Angeles Times* (p. C-3), the United States and China agreed to a new, multi-entry visa policy to facilitate business and tourist visits. The policy is to take effect on January 15, 2005.
- 01/08/05** — A report in the *Financial Times* said that Taiwan last year had conducted several successful tests of an anti-ship cruise missile, the Hsiung Feng III.
- 01/05/05** — Press accounts reported that Taipei Mayor Ma Ying-jeou, a KMT moderate said to oppose Chen Shui-bian’s push for Taiwan independence, was denied a visa to visit Hong Kong. U.S. officials criticized the decision as unconstructive.
- 01/02/05** — Former Taiwan President Lee Teng-hui returned from a six-day trip to Japan, a trip that brought strong protests from the PRC. Japan’s decision to grant Lee a visa was regarded as a policy change and evidence of its recently more assertive stance toward Beijing.
- 01/01/05** — Koo Chen-fu, Taiwan’s chief negotiator with China on cross-strait talks, died of cancer at age 87.
- 01/01/05** — In his New Year’s Day address, Taiwan President Chen Shui-bian criticized China’s announcement that the National People’s Congress would consider an “anti-secession” law aimed at Taiwan. Chen warned that such a law posed a threat to regional stability and peace.

## Appendix I

### Selected Visits by U.S. and PRC Officials

**February 2, 2005** — U.S. officials from the National Security Council, Michael J. Green and William Tobey, presented evidence to officials in Japan, South Korea, and China that North Korea may have exported uranium to Libya. Mr. Green also delivered a letter from President Bush to President Hu Jintao underscoring the urgency of North Korea's possible sale of nuclear materials.

**January 31, 2005** — U.S. Deputy Assistant Secretary for Defense Richard Lawless held talks in Beijing to discuss U.S.-China security cooperation.

**January 12, 2005** — Secretary of Commerce Don Evans began a two-day visit to China — his fourth and last as Secretary — telling his Chinese hosts that the PRC needed to move to a floating exchange rate and do a better job protecting intellectual property rights.

**January 4, 2005** — Chen Yunlin, the PRC's senior cross-strait official as head of the cabinet-level Taiwan Affairs Office, began a U.S. visit to discuss China's proposed anti-secession law. While in Washington, Chen met with Deputy Secretary of State Richard Armitage, new National Security Advisor Stephen Hadley, and U.S. Asian affairs official Michael Green.

## Appendix II

### Selected U.S. Government Reporting Requirements

#### **International Religious Freedom Report, China** (*annual report*)

*Most recent date available:* September 15, 2004

*Agency:* U.S. Department of State, Bureau of Democracy, Human Rights, and Labor

*Legislative authority:* P.L. 105-292, the International Religious Freedom Act (IRFA) of 1998, Section 102(b)

*Full text:* [<http://www.state.gov/g/drl/rls/irf/2004/>]

#### **U.S. Commission on International Religious Freedom** (*annual report*)

*Most recent date available:* May 2004

*Agency:* U.S. Commission on International Religious Freedom (USCIRF)

*Legislative authority:* P.L. 105-292, the International Religious Freedom Act (IRFA) of 1998, Section 203

*Full text:* [<http://www.uscirf.org/reports/12May04/finalReport.php3>]

#### **Reports on Human Rights Practices, China** (*annual report*)

*Most recent date available:* February 28, 2005

*Agency:* U.S. Department of State, Bureau of Democracy, Human Rights, and Labor

*Legislative authority:* The Foreign Assistance Act of 1961 (FAA), as amended, Sections 116(d) and 502(b); and the Trade Act of 1974, as amended, Section 504

*Full text:* [<http://www.state.gov/g/drl/rls/hrrpt/2004/index.htm>]

#### **Military Power of the People's Republic of China** (*annual report*)

*Most recent date available:* May 28, 2004

*Agency:* U.S. Department of Defense

*Legislative authority:* P.L. 106-65, the National Defense Authorization Act for FY2000, Section 1202

*Full text:* [<http://www.defenselink.mil/pubs/d20040528PRC.pdf>]

#### **Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions** (*semi-annual report*)

*Most recent date available:* July 1 through December 31, 2003

*Agency:* Director of Central Intelligence

*Legislative authority:* FY1997 Intelligence Authorization Act, Section 721

*Full text:* [[http://www.cia.gov/cia/reports/721\\_reports/july\\_dec2003.htm](http://www.cia.gov/cia/reports/721_reports/july_dec2003.htm)]

**International Narcotics Control Strategy Report, 2004** (*annual report*)

*Most recent date available:* March 2005

*Agency:* U.S. Department of State, Bureau for International Narcotics and Law Enforcement Matters

*Legislative authority:* Section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291); sections 481(d)(2) and 484(c) of the FAA; and section 804 of the Narcotics Control Trade Act of 1974, as amended). Also provides the factual basis for designations in the President's report to Congress on major drug-transit or major illicit drug producing countries pursuant to P.L. 107-115, the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002, Section 591

*Full text:* [<http://www.state.gov/g/inl/rls/nrcrpt/2005/>]

**Report to Congress on China's WTO Compliance** (*annual report*)

*Most recent date available:* December 11, 2004

*Agency:* United States Trade Representative

*Legislative authority:* P.L. 106-186, the U.S.-China Relations Act of 2000, authorizing extension of Permanent Normal Trade Relations to the PRC, Section 421

*Full text:*

[[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2004/asset\\_upload\\_file281\\_6986.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/asset_upload_file281_6986.pdf)]

**Report Monitoring to Congress on Implementation of the 1979 U.S.-PRC Agreement on Cooperation in Science and Technology** (*biannual report*)

*Most recent date available:* Pending (extension given past due date of April 1, 2004)

*Agency:* U.S. Department of State, Office of Science and Technology Cooperation

*Legislative Authority:* P.L. 107-314, Bob Stump National Defense Authorization Act Section for FY2003, Section 1207

*Full text:* Due date April 1. Still Pending

**Report on Tibet Negotiations** (*annual report*)

*Most recent date available:* June 23, 2004

*Agency:* U.S. Department of State, Bureau of East Asian and Pacific Affairs

*Legislative Authority:* P.L. 107-228, Foreign Relations Authorization Act, 2003, Section 613

*Full text:* [<http://www.state.gov/p/eap/rls/rpt/34266.htm>]