



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

**Kerry Dumbaugh**  
Specialist in Asian Affairs

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## Summary

U.S.-China relations were remarkably smooth for much of the George W. Bush Administration, raising speculation about how relations will fare after the transition to the Obama Administration. The State Department in 2005 unveiled what it said was a new framework for the relationship—with the United States willing to work cooperatively with China while encouraging Beijing to become a “responsible stakeholder” in the global system. U.S. Treasury Secretary Henry Paulson in December 2006 established a U.S.-China Strategic Economic Dialogue, the most senior regular dialogue yet held with China.

With total U.S.-China trade in 2007 at \$387 billion, China is now the second-largest U.S. trading partner. China also plays an important potential role in efforts to resolve the current global financial crisis, with China’s central bank a major purchaser of U.S. Treasuries and other U.S. debt. China is the second largest holder of U.S. securities and the largest holder of U.S. Treasuries used to finance the federal budget deficit. Other U.S. policymakers have advocated tougher stances on issues involving China. They are concerned about the impact of the PRC’s strong economic growth and a more assertive PRC diplomacy in the international arena; procedures to assure the quality of Chinese pharmaceuticals, food, and other imports into the United States; repeated PRC inabilities to protect U.S. intellectual property rights, and trade practices and policies in China that contribute to a strong U.S. trade deficit with China (\$256 billion in 2007).

Democratic Taiwan, over which China claims sovereignty, remains the most sensitive bilateral issue and the one many observers fear could lead to Sino-U.S. conflict. U.S. relations with Taiwan also have been plagued by what some U.S. officials see as that government’s minimal defense spending and the independence-leaning aspirations of some in Taiwan that raise problems for U.S.-China relations and, according to U.S. officials, for regional stability. The political status of Tibet re-emerged as an issue on March 11, 2008 (the anniversary of a large-scale anti-Chinese uprising in 1959), when monks in Lhasa launched a protest against PRC rule. The protests, at times resulting in violent clashes with police, spread to several other cities in Tibet and beyond. Beijing’s assertive response added to a drive urging a boycott of the Summer Olympic Games in Beijing in August 2008.

Other concerns about China appear driven by security calculations, where U.S. officials question the motivations behind China’s expanding military budget. One congressionally mandated DOD report concluded Beijing is greatly understating its military expenditures and is developing anti-satellite (ASAT) systems—a claim that gained more credence when the PRC used a ballistic missile to destroy one of its own orbiting satellites in January 2007.

This report will be updated regularly as events warrant and will track legislative initiatives involving China. For actions and issues in U.S.-China relations considered during the 109<sup>th</sup> Congress, see CRS Report RL32804, *China-U.S. Relations in the 109<sup>th</sup> Congress*, by Kerry Dumbaugh, *China-U.S. Relations in the 109<sup>th</sup> Congress*, by Kerry Dumbaugh.

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## **Most Recent Developments**

December 5, 2008—The fifth U.S.-China Strategic Economic Dialogue meeting wound up in China. The governments agreed to deepen cooperation on financial services, energy and the environment, trade and investment, and food safety.

November 19, 2008—Several hundred taxi drivers reportedly went on strike in Chongqing, China, in protest over plans to add more cabs. Also, the U.S. FDA opened an office in Beijing to increase inspections of Chinese food and medicine.

November 17, 2008—Reports said that 2,000 people rioted in Gansu province over the city government's plans to move its offices to a nearby county. The protesters reportedly feared that the move would lower property values and raise unemployment.

## **Background and Overview**

### **Introduction**

U.S. relations with the People's Republic of China (PRC) were remarkably smooth during the Bush Administration, raising speculation about how relations will fare after the transition to the Obama Administration. The two governments continue to have regular and robust high-level visits and exchanges of working level officials. Washington and Beijing also have resumed military-to-military relations, cooperated on anti-terror initiatives, and worked closely on a multilateral effort to restrain and eliminate North Korea's nuclear weapons activities. U.S. companies continue to invest heavily in China, and the Chinese central government has become an ever more important purchaser of U.S. securities and the largest holder of U.S. Treasuries used to finance the federal budget deficit.

Despite these closer connections, thorny problems continue to be factors in the relationship, including difficulties over China's intentions toward and U.S. commitments to democratic Taiwan, various disputes over China's failure to protect U.S. intellectual property rights, the economic advantage China gains from managing its currency level, and growing concerns about the quality and safety of some exported Chinese products. In addition, China's accelerating rise in the world has significant long-term implications for U.S. global power and influence. In pursuit of its economic development agenda, China's growing appetite for energy, raw materials, and other resources has led it to seek an increasing number of economic and energy-related agreements around the world, some of them with key U.S. allies. Some U.S. lawmakers have suggested that U.S. policies should be reassessed in light of the PRC's continued strong economic growth and more assertive international posture.

### **Background**

For much of the 1990s, U.S. congressional interest in the PRC increased almost annually. 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. 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 challenge (at best) or threat (at worst) to U.S. interests. Members were particularly concerned about supporting the democratization Taiwan had embraced since abandoning authoritarian rule in the late 1980s. 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) trade 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>

Following the 9/11 attacks on the United States, U.S.-China relations began to experience a sustained period of unusual stability, and Congress as a whole became less vocal and less legislatively active on China-related issues. The reasons for this could not 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 appeared to be at work. These included the post-9/11 shift in U.S. attention to the global war on terror and the war in Iraq, and a series of PRC policy preoccupations, including a wholesale transition to a new generation of leaders (beginning in 2001-2003);<sup>2</sup> avian flu, and other domestic crises (beginning in 2002); preparation for the 2008 Olympics; and more pro-active PRC foreign policy activities around the world.

This report addresses relevant policy questions in current U.S.-China relations, discusses trends and key legislation in the current Congress and provides a chronology of developments and high-level exchanges. It will be updated as events warrant. Additional details on the issues discussed here are available in other CRS products, noted throughout this report. CRS products can be found on the CRS website at <http://www.crs.gov/>.

## **Current Issues and Developments**

### **Global Financial Crisis**

Consistent with its expanding involvement in the global economy, China plays an important potential role in the current global financial crisis. Its central bank is a major purchaser of U.S. assets. In order to mitigate the yuan's appreciation against the dollar, China's central bank must purchase U.S. dollars. As a result, China has amassed a huge level of foreign exchange reserves, totaling \$1.9 trillion as of September 2008. Rather than hold dollars in cash, which earns no interest, the Chinese central government became an ever more important purchaser of U.S. Treasuries and other U.S. debt. China is the second largest holder of U.S. securities and the largest holder of U.S. Treasuries used to finance the federal budget deficit. Some U.S.

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

<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.

policymakers have expressed concern that this may pose a risk to the U.S. economy should China's foreign exchange purchase patterns change. The ongoing financial crisis in the United States and the Administration's proposed financial rescue programs will require a substantial level of new U.S. government borrowing. China will be a major purchaser of this new U.S. government debt.<sup>3</sup>

In addition, the scope of the current financial crisis suggests that global economic decision-making may be moving beyond the confines of the developed "G-7" countries, where China does not participate, and into the broader arena of the "G-20" countries, where China does participate.<sup>4</sup>

## **Concerns About Product Safety**

Since early 2007, China has been plagued with reports of tainted and unsafe food and consumer products.<sup>5</sup> In September 2008, concerns began to mount about infant formula and milk powder in China tainted with melamine, an industrial chemical that appears to make products more protein-rich. Amid a widening scandal and an extensive public outcry after thousands of babies sickened and some died, the PRC government took increasingly assertive measures to close down suspect producers and make arrests. On October 9, 2008, Beijing announced it was imposing limits on melamine of 1 milligram per kilogram in infant formula and 2.5 milligrams per kilogram in liquid milk. Beijing did not reveal if there had previously been a limit, or what that limit may have been.

Initial questions about the safety of imported products from China surfaced in March and April 2007, when an investigation by the U.S. Food and Drug Administration (FDA) linked tainted exports of pet food with wheat gluten from China to reports of pet deaths from kidney failure in the United States. The pet food contamination was the beginning of a series of well-publicized recalls of imported PRC products including fish, tires, toothpaste, and toys.<sup>6</sup> By August 17, 2007, the U.S. Consumer Product Safety Commission (CPSC) had issued nearly 150 recall notices in 2007 for Chinese-manufactured products, including electric throws; ceramic heaters; folding recliner chairs; children's jewelry; kayak paddle floats; baby cribs; candles; oil-filled electric heaters; boom boxes; bicycles; clothing; gas lighters; remote controls; lamps; curling irons; and hair dryers.<sup>7</sup>

Bilateral efforts on the quality of Chinese exports to the United States have been underway for several years. In 2004, the CPSC and China's General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) signed a memorandum of understanding (MOU) to cooperate on increasing the safety of specific consumer products, including clothing, toys,

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<sup>3</sup> This paragraph draws heavily from CRS Report RS22984, *China and the Global Financial Crisis: Implications for the United States*, by Wayne M. Morrison.

<sup>4</sup> The "G-7" is comprised of the developed countries of the United States, France, Germany, Italy, the United Kingdom, Japan, and Canada; the "G-20" is comprised of 10 of the world's 25 largest economies (plus the European Union), which includes China.

<sup>5</sup> See CRS Report RS22713, *Health and Safety Concerns Over U.S. Imports of Chinese Products: An Overview*, by Wayne M. Morrison.

<sup>6</sup> Mattel's recall involved toys containing lead paint and products containing small, powerful magnets. For details of Mattel's recalled products, see <http://www.mattel.com/safety/us/>.

<sup>7</sup> Based on a review of recalls listed on the USCPSC website from January 1—August 17, 2007, products manufactured in China were the most frequently subjects of recall notices, at 147; products manufactured in the United States, at 41, were the second most frequent.

cigarette and multipurpose lighters, home appliances, hazardous chemical consumer products, and bicycle helmets. The two agencies held a Consumer Product Safety Summit (CPSS) in Beijing in 2005, and a second CPSS meeting in Washington on September 11, 2007. The United States, China, and the European Union launched a “Joint U.S.-EU-China Initiative on Consumer Product Safety Compliance” in Beijing from September 19-24, 2008, followed by a “High-Level Consumer Product Safety Trilateral Meeting” in Brussels in November 2008.<sup>8</sup>

## **Beijing Summer Olympic Games 2008**

From August 8-24, 2008, China hosted the 2008 Summer Olympic Games in Beijing and in six other PRC cities. Beijing reportedly spent \$43 billion, more than any other Olympic host city, to prepare for the event.<sup>9</sup> A number of controversies surfaced in the run-up to the 2008 Games. Multiple interest groups opposed to various PRC behaviors saw the Games as an excellent opportunity to put pressure on leaders in Beijing to reform PRC policies. These groups included Tibetan activists pushing either for Tibetan independence or for more enlightened Chinese policies in Tibet, actions which may have led to the March 2008 protests in Tibet and China’s crackdown there; activists for Darfur seeking to pressure China to withdraw its support for the Sudanese government (Steven Spielberg resigned in February 2008 as artistic advisor for the Beijing Olympics over this issue); and a number of groups, such as Reporters without Borders and Human Rights Watch, arguing that China had not kept its promises to the International Olympic Committee to provide journalistic freedom to reporters and a cleaner environment for the athletes during the games.<sup>10</sup> Despite these and other issues, periodic calls for a boycott of either the Beijing Olympics opening ceremony or the entire summer games did not lead countries to pull their teams from competition. Many world leaders, including President Bush, attended the opening ceremony.

## **Sichuan Earthquake**

The earthquake in Sichuan Province on May 12, measured at 7.9 on the Richter Scale, is estimated to have killed 69,000 people, with hundreds of thousands more injured and 5 million estimated to be homeless. After initial reluctance, the PRC government allowed extraordinarily broad journalistic coverage of the quake zone and for the first time asked for and accepted foreign assistance. The tragedy brought world sympathy to China and a positive assessment of the government’s swift and unusually open response, muting criticism of the government’s crackdown in Tibet in March 2008. Many children died in collapsed schools, a special hardship in a country that enforces a “one-child” policy. Some speculate that public reaction to the quake may force the government to conduct widespread investigations of shoddy school construction practices and may increase pressure on Beijing to reassess the country’s population control policies.

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<sup>8</sup> “China-U.S.-EU Joint Press Statement: Consumer Product Safety—A Common Objective,” September 19, 2008, issued in Beijing, China. [http://ec.europa.eu/consumers/safety/int\\_coop/docs/trilateral\\_joint\\_statement\\_en.pdf](http://ec.europa.eu/consumers/safety/int_coop/docs/trilateral_joint_statement_en.pdf)

<sup>9</sup> Demick, Barbara, “Hiding a host of ills under the red carpet; Beijing goes to lengths beyond any host city to ready for Olympics,” *Los Angeles Times*, July 21, 2008, p. A1.

<sup>10</sup> “China: media watchdog meets with IOC chief on Olympic freedom issues,” *BBC Monitoring Media*, July 16, 2008.



## **Demonstrations in Tibet**

March 11, 2008, marked the 49<sup>th</sup> anniversary of an anti-Chinese uprising in Tibet in 1959 and the beginning of a series of increasing confrontations involving Tibetans and Chinese officials.<sup>11</sup> The day before the anniversary date, a group of Tibetan activists set off from India to begin a march to Tibet, reportedly as a protest against China's governance of Tibet. On March 11, 2008, Tibetan Buddhist monks in Lhasa began protests against Chinese rule, and the Dalai Lama commemorated the anniversary date from exile with a speech saying that the culture, language, and customs of Tibet were fading away under PRC rule. A protest launched by Buddhist monks in Lhasa on March 11, 2008, expanded to other places in Tibet and to Tibetan regions outside the Tibetan Autonomous Region over the ensuing days, escalating to clashes between Tibetan protestors and Chinese riot police. Conflicting reports emerged about the extent of violence by either protestors or security forces.

## **Military and National Security Issues**

For some years, U.S. officials in the executive branch and in Congress have continued to voice private and public concerns about China's expanding military budget and issues potentially involving U.S. national security. U.S. security concerns include the ultimate focus of China's military build-up; lack of PRC military transparency; recurring instances of apparent PRC attempts to gain U.S. military secrets; evidence of improving PRC military and technological prowess; and PRC military and technological assistance to rogue states and other bad actors.

### **China's Growing Military Power**

In its annual, congressionally mandated report on China's Military Power (most recently released in March 2008) the Pentagon concluded that China is greatly improving its military, including the number and capabilities of its nuclear forces. U.S. military planners and other American military specialists maintain that PRC improvements appear largely focused on a Taiwan contingency and on strategies to "deny access" to the military forces of a third party—most probably the United States—in the event of a conflict over Taiwan. The report maintains that this build-up poses a long-term threat to Taiwan and ultimately to the U.S. military presence in Asia.

In March 2007, after Beijing announced that its military budget would increase during the year by nearly 18%, U.S. officials called China's military build-up a continuing "source of concern and interest" for the world, and urged PRC leaders to address these concerns by adopting greater transparency in military matters.<sup>12</sup> U.S. military planners remain concerned that at least some and perhaps much of China's military build-up is being driven by Beijing's preparations to enforce its sovereignty claims against the island of Taiwan.

### **PRC Anti-Satellite Test and Space Activities**

On January 11, 2007, the PRC carried out its first successful anti-satellite (ASAT) test by destroying one of its moribund orbiting weather satellites with a ballistic missile fired from the

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<sup>11</sup> See CRS Report RL34445, *Tibet: Problems, Prospects, and U.S. Policy*, by Kerry Dumbaugh.

<sup>12</sup> Statement by State Department spokesman Sean McCormack, March 8, 2007.

ground. Previously, only the United States and the Soviet Union had conducted successful ASAT tests. Both countries reportedly halted these more than 20 years ago because of resulting space debris that could endanger other orbiting satellites. U.S. officials reportedly received no advance notice from Beijing, nor did Chinese officials publicly confirm the ASAT test until January 24, 2006, 13 days after the event and almost a week after the U.S. Government had publicly revealed the PRC test on January 18, 2007.

The January PRC ASAT test and the lack of advance notification to U.S. officials by Beijing raised a number of concerns for U.S. policy. Chief among these were questions about the new potential vulnerability of U.S. satellites—crucial for both U.S. military operations and a wide range of civilian communications applications—and the credibility of PRC assertions that it is committed to the peaceful use of space. In addition, officials from the United States and other countries criticized China for either ignoring or failing to realize the extent of the test's contributions to the growing problem of space debris.

China's ASAT test illustrates the country's ambitious and growing space program. China is now only the third country, after Russia and the United States, to send manned flights into space—the first on October 15, 2003 (Shenzhou 5), with a single astronaut orbiting the earth; the second on October 11, 2005 (Shenzhou 6), orbiting two astronauts;<sup>13</sup> and the third with three astronauts (Shenzhou 7) on September 25, 2008 after the 2008 Olympic Games. This latter mission included a space walk. Meanwhile, China's future plans include a three-stage lunar program, to include landing a rover on the moon by 2012 and launching a manned lunar mission by 2020. China completed the first of the three stages on October 24, 2007, launching its first unmanned lunar probe, the Chang'e 1 orbiter, aboard a Long March 3A rocket.

## **Military Contacts**

Once one of the stronger components of the relationship, U.S.-China military relations have only recently begun to recover after they were suspended following the 1989 Tiananmen Square crackdown. Both countries cautiously resumed military contacts during the 108<sup>th</sup> Congress, although efforts to reenergize military ties met with repeated setbacks, with U.S. Secretary of Defense Donald Rumsfeld making his first official visit to China as Secretary of Defense only in October 2005.<sup>14</sup>

Under U.S. Secretary of Defense Robert Gates, U.S.-China military ties appear to have been more active. On November 4, 2007, Secretary Gates arrived in Beijing for a three-day visit, his first official visit to China as Secretary of Defense. He met with his counterpart, Defense Secretary Cao Cangchuan, with Central Military Commission Vice-Chairmen Guo Boxiong and Xu Caihou, and with Vice Foreign Minister Dai Bingguo. Both sides announced they had reached agreement on setting up an official military hotline; strengthening dialogue and exchanges, particularly between young and middle-aged military officers; and holding exercises on humanitarian rescue and disaster relief. Admiral Timothy J. Keating, commander of U.S. forces in the Pacific, also left for a visit to Beijing on January 12, 2008.

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<sup>13</sup> China's manned space program was begun in 1992.

<sup>14</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley A. Kan.

## **Economic and Trade Issues<sup>15</sup>**

Economic and trade issues are an extremely complicated set of issues to the U.S.-China relationship. The PRC is now the second-largest U.S. trading partner, with total U.S.-China trade in 2007 at \$387 billion. Ongoing issues in U.S.-China economic relations include the substantial and growing U.S. trade deficit with China (which climbed to \$256 billion in 2007), repeated PRC inabilities to protect U.S. intellectual property rights, and the PRC's continuing restrictive trade practices, such as its unwillingness to date to float its currency. (Issues involving allegations about tainted or faulty PRC exports to the United States are dealt with elsewhere in this report.) In addition, some U.S. policymakers have focused attention in recent years on efforts by PRC companies to buy American companies and other U.S. assets.

## **Currency Valuation**

On June 13, 2007, the U.S. Treasury Department released a mandated, semi-annual report to Congress on international exchange rates in which it concluded that China “did not meet the technical requirements for designation” [as a currency manipulator] under U.S. law, but declaring that the United States “forcefully” raises the currency valuation issue with PRC leaders at every opportunity.<sup>16</sup> The report also concluded that China's economy was “severely” unbalanced—overly dependent on exports and with weak consumer spending at home. The Treasury report prompted renewed calls and legislation in Congress for firmer U.S. action to mitigate the effects of China's currency restrictions.

The U.S. concern about the PRC's decision to keep the value of its currency low has been building for several years. Until 2005, the PRC pegged its currency, the renminbi (RMB), to the U.S. dollar at a rate of about 8.3 RMB to the dollar—a valuation that many U.S. policymakers concluded 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 have urged Beijing either to raise the RMB's value or to make it freely convertible subject to market forces. On July 1, 2005, the PRC changed this valuation method, instead announcing it would follow a “managed float” policy for the RMB using a basket of multiple other currencies. Since then, the RMB has appreciated by about 20% against the dollar, but this has not been sufficient to assuage ongoing U.S. congressional concerns.<sup>17</sup> In the 110<sup>th</sup> Congress, both the Senate Finance Committee and the Senate Banking, Housing, and Urban Affairs Committee reported legislation addressing currency exchange rate issues.<sup>18</sup>

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<sup>15</sup> See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

<sup>16</sup> For the full text of the Treasury Department report, see [http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/pdf/2007\\_FXReport.pdf](http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/pdf/2007_FXReport.pdf).

<sup>17</sup> For more information, see CRS Report RS21625, *China's Currency: A Summary of the Economic Issues*, by Wayne M. Morrison and Marc Labonte.

<sup>18</sup> The Senate Committee on Banking, Housing, and Urban Affairs reported S. 1677, the Currency Reform and Financial Markets Access Act of 2007; the Senate Finance Committee reported S. 1607, the Currency Exchange Rate Oversight Reform Act of 2007.

## **Unfair Trade Subsidies**

On March 20, 2007, the U.S. Department of Commerce announced a preliminary decision to apply countervailing duties (an anti-subsidy remedy) to two PRC companies exporting “coated free sheet” (glossy) paper to the United States. The announcement broke with a 23-year U.S. policy, adopted in 1984, of not applying U.S. countervailing duty laws to non-market economies. Citing a 177% increase in imports of PRC glossy paper products from 2005-2006, Secretary of Commerce Carlos M. Gutierrez said that the PRC economy had evolved significantly in the last two decades and that U.S. tools to address unfair competition needed to evolve in response. The move signals a new U.S. willingness to be assertive in challenging PRC trade policies and suggests that other American industries affected by the PRC’s exports, such as textile, steel, and plastics, may seek similar remedies. Beijing’s sharp criticism of the U.S. move hinted at potential future trade retaliation and possible negative implications for the ongoing U.S.-China “Strategic Economic Dialogue,” which was chaired by Treasury Secretary Henry Paulson under the Bush Administration.

## **Intellectual Property Rights**

China’s inability to live up to its World Trade Organization (WTO) commitments to protect intellectual property rights (IPR) has become one of the most important issues in U.S.-China bilateral trade. According to the International Intellectual Property Rights Alliance (IIPA), IPR piracy in China cost U.S. firms \$3.5 billion in lost sales in 2007.<sup>19</sup> U.S. officials routinely have urged Beijing to crack down on IPR piracy, and a series of U.S. officials visiting China have stressed that China needs to do better at IPR protection.

## **U.S.-PRC Official Dialogues**

### **The Senior Dialogue and Strategic Economic Dialogue**

In recent years, two new high-level U.S.-China dialogues have been formed: the U.S.-China Senior Dialogue under the auspices of the State Department, and the U.S.-China Strategic Economic Dialogue under the auspices of the Treasury Department. Each of these is intended to meet twice annually so that Cabinet-level officials in both parties can hold regular talks on key issues. In Beijing in August 2005, Deputy Secretary of State Robert Zoellick and PRC Vice Foreign Minister Dai Bingguo presided over the initial round of the Senior Dialogue, which was first suggested by PRC President Hu Jintao in 2004 during a meeting with President Bush. On January 17, 2008, U.S. Deputy Secretary of State John Negroponte and PRC Vice Foreign Minister Dai presided jointly over the fifth round of the Senior Dialogue in Beijing. Negroponte reportedly reiterated the U.S. position on Taiwan’s U.N. referendum. For the first time, a PRC military official, General Ding Jingong, attended the dialogue. Ding is deputy head of the Foreign Affairs Office of the Ministry of Defense.

On September 20, 2006, during the first of his trips to China as Treasury Secretary, Henry Paulson announced that he would chair a new senior-level mechanism for bilateral dialogue agreed to by Presidents Bush and Hu, the U.S.-China Strategic Economic Dialogue (SED), which

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<sup>19</sup> See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

like the Senior Dialogue would be held twice annually.<sup>20</sup> According to a background paper from the SED, the purpose of the SED is to advance U.S.-China economic relations and encourage China's continued economic transition to that of a responsible global player.<sup>21</sup>

The Senior Dialogue and the SED join a host of other regularly occurring official U.S.-China dialogues that hold regular meetings, generally on either an annual or biannual basis. These include the following:

- **The Joint Commission on Commerce and Trade (JCCT)**, initiated in 1983 and elevated in 2003 to a senior level. Participating agencies are the U.S. Department of Commerce, the U.S. Trade Representative, and the PRC Vice Premier responsible for trade. The 18<sup>th</sup> session was held in Beijing in December 2007.
- **The U.S.-China Joint Economic Committee (JEC)**, initiated in 1979. Participating agencies are the U.S. Department of the Treasury and the PRC Ministry of Finance.
- **The U.S.-China Joint Commission on Science and Technology (JCM)**, initiated in 1979. Participating agencies are the Office of Science and Technology Policy (White House), the State Department's Office of Science and Technology Cooperation, and the PRC Ministry of Science and Technology.
- **The U.S.-China Economic Development and Reform Dialogue (State-NDRC Dialogue)**, initiated in 2003. Participating agencies are the U.S. Department of State and the PRC National Development and Reform Commission.
- **The U.S.-China Energy Policy Dialogue (EPD)**, negotiated in 2004 and initiated in 2005. Participating agencies are the U.S. Department of Energy and China's National Development and Reform Commission.
- **The Global Issues Forum (GIF)**, negotiated in 2004 and initiated in 2005. Participating agencies include the U.S. Department of State's Bureau for Global Affairs and the PRC Ministry of Foreign Affairs.
- **The U.S.-China Healthcare Forum (HCF)**, initiated in July 2005. Participating agencies are the U.S. Department of Commerce and the Department of Health and Human Services; and the PRC Ministry of Health and Ministry of Commerce.
- **The Asia-Pacific Partnership on Clean Development and Climate (AP6)**, announced in 2005 and initiated in 2006. The forum brings together China, the United States, Australia, India, Japan, and Korea.

Notably absent from the regularized U.S.-China dialogue process is an official U.S.-China military or defense dialogue at a comparable level of intensity or public scrutiny. The mechanism that does exist, the Defense Consultative Talks (DCT) is intermittent and plagued with recurring setbacks, and has been of dubious value for a number of reasons.<sup>22</sup> Admiral William Fallon,

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<sup>20</sup>Treasury Secretary Henry M. Paulson press briefing in Beijing, September 20, 2006. Joint statement at <http://www.treas.gov/press/releases/hp105.htm>.

<sup>21</sup> Strategic Economic Dialogue (SED) Backgrounder, October 30, 2007. Five SED meetings have been held: December 14-15, 2006; May 22-23, 2007; December 11-13, 2007; June 16-18, 2008; and December 4-5, 2008.

<sup>22</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley A. Kan.

attempting to revitalize U.S.-China military ties as Commander of the U.S. Pacific Command, was quoted in 2006 as saying that there had been so much decline in U.S.-China military ties in recent years that he was “starting from virtually zero” in trying to rebuild contacts.<sup>23</sup> The tempo of senior level U.S.-China military contacts has appeared to be running higher under U.S. Secretary of Defense Robert Gates, with more frequent senior U.S.-China military visits.

## **Taiwan**

Taiwan remains the most sensitive and complex issue that U.S. policymakers face in bilateral Sino-U.S. relations.<sup>24</sup> 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. Chinese leaders are supporting these long-standing claims with more than 900 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.”

Until May 2008, China watchers had been especially concerned with potential cross-strait conflict because of Taiwan’s unpredictable political environment, where the balance of political power had teetered precipitously between two contending political party coalitions of nearly equal strength. One of these—the “Pan-Green” coalition led by the Democratic Progressive Party (DPP), controlled the presidency for eight years and is closely associated with advocates of Taiwan independence.

Fears of cross-strait contention were eased on March 22, 2008, when, in a large turnout, voters in Taiwan elected Ma Ying-jeou of the KMT Party as president. Ma out-pollied rival DPP candidate Frank Hsieh by a 2.2 million vote margin of 58% to 42%. Coming on the heels of the KMT’s sweeping victory in January’s legislative elections, the presidential election result appeared to be a further repudiation of President Chen Shui-bian’s eight-year record of governance. President Ma, who began his tenure on May 20, 2008, moved quickly to implement improvements in cross-strait relations, expanding on foundations laid by the previous Chen administration.<sup>25</sup> Official talks reopened on June 11-12, 2008, in Beijing, resulting in groundbreaking new agreements to allow regular weekend direct charter flights, to open permanent offices in each other’s territories, and to boost PRC tourism to Taiwan, among others.

## **U.S. Taiwan Policy and U.S. Arms Sales**

On October 3, 2008, the U.S. government notified Congress of its intention to sell a package of defense articles and services, worth as much as \$6.4 billion, to Taiwan. The announcement marked the end of a period where no arms sales were made—what some suggested was a U.S. arms sales “freeze” to Taiwan prior to the 2008 Olympic Games (as Admiral Timothy Keating

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<sup>23</sup> Scott Tyson, Ann, “Admiral tries to revive Chinese ties,” *Washington Post*, September 23, 2006, p. A14.

<sup>24</sup> For an analysis of current problems and challenges for U.S. policy toward Taiwan, see CRS Report RL33684, *Underlying Strains in Taiwan-U.S. Political Relations*, by Kerry Dumbaugh.

<sup>25</sup> Among other initiatives during the Chen Administration, in January 2005, Taiwan and the PRC launched the first non-stop holiday direct charter flights flown in 55 years across the strait. These were expanded in 2006 with an agreement to allow up to 168 direct annual round-trip charter passenger flights between China and Taiwan.

appeared to confirm in a briefing on July 16, 2008).<sup>26</sup> Many U.S. policymakers in recent years had grown frustrated with Taiwan's falling military expenditures and its perceived decline in defense readiness. Political disagreements in Taiwan also kept the government from purchasing much of the weaponry President Bush approved for sale in 2001. Until 2007, these disagreements stalled a special arms acquisition budget that the government submitted to Taiwan's legislature, originally for \$18 billion, then slashed to \$15 billion and finally to \$6.3 billion in an effort to attract legislative support. Other U.S. officials also appeared frustrated with delays over the special arms budget and raised questions about future U.S. defense commitments to Taiwan if the delays continued.<sup>27</sup>

Concerns about Taiwan's defense spending eased throughout 2007. On June 15, 2007, Taiwan's legislature passed an annual defense budget which included funds for portions of the 2001 U.S. weapons package, including funds for P3-C anti-submarine warfare aircraft. The Bush Administration notified Congress on September 12, 2007 of the proposed sale to Taiwan of 12 excess P3-C planes;<sup>28</sup> on November 20, 2007, the *Federal Register* published the announcement of another proposed arms sale to Taiwan for upgrade and refurbishment of PATRIOT Advanced Capability-3 (PAC-3) Guided Missiles.<sup>29</sup> In December 2007, the legislature passed a 2008 defense budget of \$10.5 billion, which officials said was a 12% increase over the 2007 budget. The new budget included an allocation for three sets of U.S. Patriot III missiles originally approved for sale by President Bush in 2001, as well as \$61.5 million for a feasibility study for the purchase of U.S.-made diesel submarines.

## **China's Growing Global Reach**

China's robust international engagement since 2000 has caught many by surprise and has prompted growing American debate over the PRC's motivations and objectives. The fact that much of this international engagement has expanded while the United States has been preoccupied with its military involvement in Iraq and Afghanistan also is causing a growing degree of American introspection. Part of the debate includes an increasing focus on the implications that China's growing international engagement could have for its "soft power" projection around the world, and consequently what this means for U.S. economic and strategic interests.

Experience shows that abrupt, unexplained shifts in policy still occur with a fair degree of regularity in the PRC system. Still, some fundamental objectives appear to be motivating Beijing's foreign policy outreach. These include an imperative to promote and enhance China's economic development, particularly its voracious need for energy resources and raw materials to

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<sup>26</sup> Admiral Timothy Keating, "A Combatant Commander's Perspective on the Asia-Pacific," The Heritage Foundation, July 16, 2008.

<sup>27</sup> Speaking in San Diego on September 20, 2005, Edward Ross, a senior U.S. Pentagon official with the Defense Security Cooperation Agency, said it is reasonable to question U.S. defense commitments to Taiwan "if Taiwan is not willing to properly invest in its own self-defense." *Xinhua Financial Network*, September 21, 2005, English. See also CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley A. Kan.

<sup>28</sup> On the same day, the Administration also notified Congress of the proposed sale to Taiwan of SM-2 Block IIIA STANDARD missiles.

<sup>29</sup> DOD notice of a proposed Letter of Offer for an arms sale to the Taipei Economic and Cultural Representative Office (Taiwan) for upgrade and refurbishment of PATRIOT Advanced Capability-3 (PAC-3) Guided Missiles. [Transmittal No. 08-10, pursuant to section 36(b)(1) of the Arms Export Control Act.] *Federal Register*, November 20, 2007, p. 65306.

sustain its double-digit annual growth; an effort to separate the island of Taiwan, over which the PRC claims sovereignty, from its 23 remaining official relationships; and a desire to increase China's international stature and compete more successfully with U.S. supremacy. To achieve these ends, China in recent years has crafted multiple bilateral agreements and partnerships, joined and become more active in existing multilateral organizations, and founded new multilateral institutions that tend to exclude the United States.

China's foreign policy approach has several competitive advantages over the United States. The unrestricted nature of Beijing's overseas loans and investments is attractive to foreign governments wanting solutions to their development problems that are swifter, more efficient, and less intrusive than western lenders can offer. In addition, Beijing's large state-owned companies, with deep pockets and no shareholders to answer to, can afford short-term losses in pursuit of longer-term, more strategic gains. But China's approach also has structural limitations in areas where the United States is strong. Beijing's foreign development policy operates from a much narrower base, with China's "win-win" approach tackling easy issues first and postponing difficult issues, perhaps indefinitely. Acquiring and maintaining an international presence also brings certain complications that are new to the PRC, including multiple opportunities for international misunderstanding, resentment, and cultural backlash. Finally, unlike the United States, China lacks the advantage of a substantial private-sector investment presence overseas. Still, it is clear that China increasingly is competing more directly with the United States both economically and politically in the international arena.

## **Environmental Issues**

China's economic development and need for greater energy resources also is having a rapidly increasing impact on the environment, both within China and for its regional and global neighbors. Although China alone has been the source of 40% of the world's oil demand growth since 2000,<sup>30</sup> its continued heavy dependence on coal in recent years has made it second only to the United States as the largest contributor to global carbon-dioxide (CO<sub>2</sub>) emissions. *Reuters* reported on June 20, 2007, that China had surpassed the United States in CO<sub>2</sub> emissions.

According to the U.S. Department of Energy, carbon emissions related to China's energy use more than doubled between 1980 and 2003, an increase that has had a corresponding impact on air quality, agriculture, human health, and climate change. PRC leaders have recognized that this trend is not sustainable and have undertaken efforts to address environmental quality, including establishment in 1998 of the State Environmental Protection Administration, adoption of a series of environmental laws and regulations, and mandatory conversion of many government vehicles to non-polluting liquified petroleum and natural gas.<sup>31</sup> Despite this, economic development remains the top priority for Chinese leaders, and PRC efforts to address the extensive and worsening pollution from this economic development have lagged.

Beijing's push to meet more of its development needs through the cleaner technology of hydro-power has exacerbated other long-term environmental problems in China. To generate electric power, the government has launched massive dam construction projects, continuing a

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<sup>30</sup> CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by Emma Chanlett-Avery.

<sup>31</sup> "China: Environmental Issues," in *Country Analysis Briefs*, Energy Information Administration, U.S. Department of Energy, published in July 2003. <http://www.eia.doe.gov/emeu/cabs/China/Environment.html>



phenomenon that occurred throughout centuries of Chinese history to tame recurring floods.<sup>32</sup> Projects such as the Three Gorges Dam, on the Yangtze River, have been criticized heavily by environmental scientists who blame these and other such construction for being environmentally short-sighted. Moreover, since some of the region's most significant rivers originate in the mountains of Tibet, China's hydro-power development programs are increasingly affecting its neighbors. China began multiple dam construction on the upper Mekong River in Yunnan Province with little thought to the resulting impact on Burma, Thailand, Laos, Cambodia, and Vietnam, the dams' downstream neighbors. Other important regional rivers originating in Tibet include the Brahmaputra (India and Bangladesh); Irrawaddy (Burma); the Indus (Pakistan); and the Salween (Burma and Thailand).

The United States and China engage in energy and environment-related dialogue through the U.S.-China SED (Strategic Economic Dialogue). As an outgrowth of that dialogue, on December 15, 2006, both countries announced that China would become the third country to join the United States in the FutureGen International Partnership, a collaborative effort to reduce carbon emissions. The two countries also signed an Energy Efficiency and Renewable Energy Protocol, an effort to promote clean, renewable energy technology. The third SED that ended on December 13, 2007, produced an agreement to establish a working group to explore cooperation in energy and environmental fields.

Both the U.S. and Chinese governments have been criticized for their policies on climate change and carbon emissions. The United States has been unwilling to agree to legally binding greenhouse gas (GHG) targets that it sees as punitive to U.S. and developed countries' interests and overly generous to developing countries like China and India, whose GHG emissions are the fastest rising in the world. China likewise has been reluctant to agree to GHG caps, saying developed countries bear the greater burden for GHG and should assist developing countries with technology to address GHG emissions.

## **Domestic Political Issues**

Despite China's rapid economic advances and its expanded international influence, its internal political and institutional development have not kept comparable pace. Increasing social and economic inequities have hobbled the growth of civil society and have led to growing strains in China's political and societal fabric—between the central government in Beijing and the provincial and municipal governments in the interior; between the socialist left and the increasingly capitalist right; between those arguing for economic growth at all costs and those advocating more sustainable and equitable development; and between the few newly wealthy who have thrived under economic liberalism and the many desperately poor who have not. Leaders in Beijing are thought to be deeply concerned about the political and social implications of these internal strains, and increasing debate on and maneuvering around these issues is likely to continue affecting the political environment in the wake of a key five-year Communist Party Congress held in Beijing in October 2007.

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<sup>32</sup> According to Jasper Becker in a series of environmental articles in the *Asia Times*, China is home to 22,104 dams, compared to 6,390 in the United States and 4,000 in India. Becker, Jasper, "Peasants bear the brunt of China's energy plans," *Asia Times Online*, 2003.

## **Social Stability**

The far-reaching economic changes the PRC continues to undergo have led to increasing disgruntlement among a number of social groups.<sup>33</sup> Peasants and farmers in rapidly developing parts of China have labored under heavy tax burdens and fallen 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. One widely publicized case occurred on December 6, 2005, in the southern Chinese city of Dongzhou (Shanwei), when paramilitary forces opened fire on villagers demonstrating against the confiscation of their land for the construction of a new power plant, killing an unknown number of villagers.

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 throughout China 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>34</sup> The 2008 Sichuan earthquake provided a potential opportunity for public dissatisfaction with the PRC government—focused on the issue of shoddy construction that led to more destruction and death than might have occurred with sturdier buildings.

## **17<sup>th</sup> Party Congress, October 15-21, 2007**

In mid-October 2007, the Chinese Communist Party held its 17<sup>th</sup> Party Congress—an important Party conclave held every five years to set the policy direction and make leadership decisions for the coming five years. In terms of substance, the 17<sup>th</sup> Party Congress brought no surprises. General Secretary Hu Jintao reported that the Party would continue to emphasize its overall goal of economic investment and export-oriented reform, although it would place more importance on encouraging domestic consumption. The key catch-phrase in the report was to adhere to the “Scientific Development Concept”—a concept designed to focus on improvements in people’s livelihood, employment, health, national education, renewable energy resources, and environmental quality.

## ***New Leaders***

The Party also chose its new leaders for the coming five years. As expected, Party Secretary Hu Jintao was reaffirmed to his leadership role, and he along with five other senior leaders remained on the nine-member Politburo Standing Committee (PSC), the Party’s most authoritative and important entity. Of the four new PSC members, two—Xi Jinping and Li Keqiang—have been tipped as frontrunners to be Hu Jintao’s successor as Party Secretary at the 18<sup>th</sup> Party Congress in 2012. The two are the only PSC members to have been born in the 1950s, making them the first

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<sup>33</sup> See CRS Report RL33416, *Social Unrest in China*, by Thomas Lum.

<sup>34</sup> The ACFTU is controlled by the Communist Party. For background and further details, see CRS Report RL31164, *China: Labor Conditions and Unrest*, by Thomas Lum.

of the “fifth generation” of China’s potential leadership to rise to this level. If accepted retirement practices hold true (at age 68), only these two will be young enough to remain in the Politburo of the 18<sup>th</sup> Party Congress.

## **Tibet**

As the demonstrations and crackdown in March 2008 indicate, 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. Paula Dobriansky, Under Secretary of State for Global Affairs, who served as the Special Coordinator in the Bush Administration, is the highest-ranking U.S. official to have held this position.<sup>35</sup>

### *China’s New “Reincarnation Law”*

There has been growing speculation about what happens upon the death and (according to Buddhist tradition) the subsequent reincarnation of the current Dalai Lama (the 14<sup>th</sup>), who is 73. In 2007, Beijing took steps designed to assure its future control over the selection process. On August 3, 2007, the State Administration for Religious Affairs (SARA) issued a set of regulations, effective September 1, 2007, requiring prior government approval for all Tibetan Buddhist reincarnations through the submission of a “reincarnation application.” In a statement accompanying the regulations, SARA called the step “... an important move to institutionalize management on reincarnation of living Buddhas.”<sup>36</sup> The regulations insert the Chinese government directly into what for centuries has been one of the principal mystical and religious aspects of Tibetan Buddhism.

### *Sino-Tibetan Negotiations*

One of the responsibilities of the U.S. Special Coordinator for Tibet is to encourage negotiations and other contacts between the PRC government and the Dalai Lama’s government-in-exile. Under the Tibetan Policy Act of 2002 (Section 613 of P.L. 107-228), the Coordinator is to issue an annual report on her office’s activities and on the status of any Sino-Tibetan negotiations. A recent report submitted by Under Secretary Dobriansky, dated June 2007, found grounds for limited optimism on Sino-Tibetan contacts, but raised questions about whether the momentum could be sustained.<sup>37</sup>

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<sup>35</sup> For background and details, see CRS Report RL30983, *Tibet, China, and the 107<sup>th</sup> Congress: Issues for U.S. Policy*, by Kerry Dumbaugh.

<sup>36</sup> An English translation of the new laws is provided by the International Campaign for Tibet at <http://savetibet.org/news/newsitem.php?id=1159>.

<sup>37</sup> The full text of the latest Report on Tibet Negotiations can be found at the following website: <http://www.state.gov/p/eap/rls/rpt/2007/88157.htm>

In addition to this report, the Under Secretary's office is responsible for submitting the annual State Department Country Reports on Human Rights Practices, mandated by Sections 116(d) and 502(B)(b) of the Foreign Assistance Act of 1961. The section on China specifically includes separate accounts for Tibet, Hong Kong, and Macau. While the latest report (released in March 2007) judged the PRC government's human rights record in Tibet to remain very poor, it found the same limited grounds for optimism on Sino-Tibetan contacts as does the latest Tibet negotiations report cited above.<sup>38</sup>

Until the March 2008 crackdown, grounds for optimism in Sino-Tibetan talks had been raised slightly by a set of recurring interactions between the PRC government and delegations from the Tibetan community led by the Dalai Lama's special envoy in the United States, Lodi Gyaltsen Gyari.<sup>39</sup> In these negotiations, the Dalai Lama's special envoy acknowledged differences but also had favorable reactions to the talks, saying "Our Chinese counterparts made clear their interest in continuing the present process and their firm belief that the obstacles can be overcome through more discussions and engagements."<sup>40</sup> Progress appeared to stall in 2008, however, with the 8<sup>th</sup> round of Sino-Tibetan negotiations (held in October 2008) resulting in no developments. The stalemate led the Dalai Lama to call an unusual meeting of Tibetan exiles in Dharamsala. The group began meeting on November 17, 2008, reportedly to explore new strategies for the Tibetan movement with respect to China.

### **Xinjiang's Ethnic Muslims**

For years, the PRC government also has maintained a repressive crackdown against Tibetans and Muslims, particularly against Uighur "separatists"—those in favor of independence from China—in the Xinjiang-Uighur Autonomous Region in western China. U.S. officials warned after September 11, 2001 that the global anti-terror campaign should not be used to persecute Uighurs or other minorities with political grievances against Beijing. But 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 (ETIM), on the U.S. list of terrorist groups. In early January 2007, PRC officials claimed that the ETIM was the target of a Chinese raid on a suspected terrorism camp in Xinjiang. No details were given, although PRC officials reportedly said that 18 were killed and 17 arrested.<sup>41</sup> In 2008, Uighur groups claimed credit for a series of deadly attacks in China leading up to the Olympic Games, including a May bus bombing in Shanghai which killed three, bombings at a police station in Wenzhou and a plastics factory in Guangzhou on July 17, and bombings of buses in Yunnan on July 21.

### **Internet and Media Restrictions**

The explosive growth of the Internet, cell phones, and text messaging in China has helped make these relatively unregulated electronic sources the dominant source of information for many PRC citizens. Beijing has increasingly viewed these new information sources as potential threats to the

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<sup>38</sup> The full text of the latest State Department human rights report can be found at the following website: <http://www.state.gov/g/drl/rls/hrrpt/2006/78771.htm>

<sup>39</sup> Lodi Gyari gave a news conference about these talks at the National Press Club in Washington, DC, on November 2, 2005.

<sup>40</sup> Statement by Special Envoy Lodi Gyari, released on February 25, 2006.

<sup>41</sup> "Muslim Terror Raid Finds 'International' Ties," *New York Times*, January 10, 2007, p. 14.

central government's ability to control information flows, and for several years PRC leaders have attempted to restrict and control the scope of Web content and access. Beijing's attempts to restrict and police the Internet have attracted congressional attention; on May 20, 2008, for example, the Senate Judiciary Human Rights Subcommittee held hearings to review the actions of a U.S. company, Cisco, which reportedly has played a role in helping the PRC construct an Internet monitoring system.<sup>42</sup>

On September 25, 2005, China imposed new regulations designed to further limit the type of electronic news and opinion pieces available to the Web-savvy in China.<sup>43</sup> Among other things, the regulations prohibit major search engines from posting their own independent commentary on news stories, stipulating that only opinion pieces provided by state-controlled media may be posted; requires internet service providers to record the content, times, and Internet addresses of news information that is published and to provide this information to authorities upon inquiry; and in vague terms prohibits certain kinds of content from being posted, such as content that "undermines state policy" or "disseminates rumors [and] disturbs social order."<sup>44</sup> The regulations are backed by penalties, including fines, termination of Internet access, and possible imprisonment.

## **Human Rights**

The Bush Administration generally favored selective, intense pressure on individual human rights cases and on rule of law issues rather than the broader approach adopted by previous American administrations. There has been little sign that the U.S. position on human rights has had much affect on PRC policies, although there is growing evidence of increasing social demands within China for greater accountability, transparency, and responsiveness in government, particularly in cases of official corruption and malfeasance.

## **Religious Freedom**

The PRC continues 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 officials have classified as illegal religious "cults" such as the Falun Gong and the Three Grades of Servants Church.<sup>45</sup> 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 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 19, 2008, the U.S. Department of State judged China's record on religious freedom to remain poor and substantially the same as during previous years. The State Administration for Religious Affairs, SARA, (formerly known as the Religious Affairs Bureau, or RAB) continues to

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<sup>42</sup> Noyes, Andrew, "Cisco grilled for allegedly helping Chinese surveillance," *National Journal.com*, May 20, 2008.

<sup>43</sup> "'Full Text' of PRC Internet News Information Service Management Rules," jointly promulgated by the PRC State Council Information Office and the Ministry of Information Industry, September 25, 2005, *Beijing Xinhua Wang*, in FBIS, CPP2005926038001.

<sup>44</sup> *Ibid.*, Article 19.

<sup>45</sup> See CRS Report RL33437, *China and Falun Gong*, by Thomas Lum.

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. Communist Party officials continue to stress that religious belief is incompatible with Party membership.

## **Family Planning Policies**

Because of allegations of coercion in PRC family planning programs, direct and indirect U.S. funding for family planning practices in China is prohibited in provisions of several U.S. laws. In addition, legislation in recent years has expanded these restrictions to include U.S. funding for international and multilateral family planning programs, such as the U.N. Population Fund (UNFPA), that have programs in China. (Section 660(c) of the House-passed version of H.R. 2764, the FY2008 State, Foreign Operations, and Related Programs Appropriations Bill for FY2008 Department, prohibits funds for a UNFPA country program in China and requires a report on the UNFPA China program from the Secretary of State. The House passed the measure on June 21, 2007.)

While the PRC has maintained its restrictive and at times coercive “one-child” program for several decades, there are 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>46</sup>

There also is growing evidence that citizens of the PRC are becoming more assertive about their reproductive rights.<sup>47</sup> In mid-May 2007, news accounts reported violent public protests in Guangxi Province (Bobai County) over the “savage implementation” of family planning policies by local authorities, including the retroactive imposition of extraordinarily heavy fines and the confiscation or destruction of household goods and food.<sup>48</sup> The “one-child” policy has also been mentioned in connection with the Sichuan earthquake of May 12, 2008, where the widespread destruction of schools meant that many parents lost their only child.

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

Some U.S. observers have become increasingly concerned about China’s growing economic and political reach in the world, often referred to as “China’s rise,” and what it means for global U.S. economic and political interests, U.S.-China relations, and concerns for Taiwan’s security. Some

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<sup>46</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>47</sup> Pan, Philip, “Who controls the family? Blind activist leads peasants in legal challenge to abuses of China’s population-growth policy,” *Washington Post*, August 27, 2005, p. A1.

<sup>48</sup> Reported in *Tung Fang Jih Pao*, May 21, 2007, translated in *FBIS*, FEA20070522158306.

in this debate believe China's rise is a malign threat that needs to be thwarted; others believe that it is an inevitable phenomenon that needs to be managed. As was the 109<sup>th</sup> Congress before it, the 110<sup>th</sup> Congress is facing recurring issues involving this emerging debate and how U.S. interests may best be served.

According to one school of thought, China's economic and political rise in the world is inevitable and needs to be accommodated and managed. 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. Already, these developments have led China's population to press its government for greater political pluralism and democracy—two key U.S. objectives—and this trend is likely to continue.

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 the international financial system, alternative energy sources, climate change, 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, these consequences could include the possibility of a creation of greater Chinese nationalism with a strong anti-American bias, a breakdown in PRC governance, fragmentation of the country itself, and/or an increasingly isolated United States that the international community may see as out of step with global trends.

Other proponents of the “inevitability” of China's rise stress especially the extreme competitive challenges of China's growing power. They say these challenges, 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 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 making new ones, expanding overseas investments, sharpening American global competitiveness, and maintaining 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 authoritarian 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 China. 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.

## **Selected Legislation in the 110<sup>th</sup> Congress<sup>49</sup>**

### **Public Laws**

#### **Energy Independence and Security Act of 2007—P.L. 110-140**

Introduced as H.R. 6 on January 12, 2007, P.L. 110-140 became the vehicle for omnibus energy legislation, including provisions concerning China contained in H.R. 3221, introduced by Representative Pelosi. The final Act includes language that authorizes the Secretary of Commerce to take efforts to promote U.S. clean energy technology exports to India, China, and other countries that may benefit. (The legislative journey to the public law has a convoluted history, containing selected provisions from 14 bills, including H.R. 3221, and three resolutions. The President signed the omnibus measure into law on December 19, 2007.)

#### **Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008—P.L. 110-161**

Introduced as H.R. 2764 by Representative Lowey. The final public law (P.L. 110-161) included provisions requiring U.S. representatives at international financial institutions to support projects in Tibet if they do not provide incentives for non-Tibetan immigration into Tibet; and provided \$5 million in ESF funds to NGOs supporting cultural traditions, sustainable development, and environmental protection in Tibet. Section 733 of the enacted bill prohibited a rule allowing poultry products to be imported from China. The final bill also required 15-day prior notification to both Appropriations Committees before processing licenses for the export to China of satellites of U.S. origin; and provided \$15 million in democracy assistance funds for China, Hong Kong, and Taiwan, providing that monies for Taiwan be matched by non-U.S. government sources; and \$150,000 for the U.S. Senate-China Interparliamentary Group, to remain available until September 2009. The final bill also prohibited funds for a United Nations Population Fund (UNFPA) program in China (Section 660(c)). After a complicated series of procedural floor motions in December 2007, the bill was sent to the President, who signed it on December 26, 2007.

#### **National Defense Authorization Act for FY2008—P.L. 110-181**

Introduced as H.R. 4986, Section 1263 of P.L. 110-181 adds a reporting requirement to the Annual Report on Military Power of the People's Republic of China (authorized in P.L. 106-65).

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<sup>49</sup> For legislative action during the 109<sup>th</sup> Congress, see CRS Report RL32804, *China-U.S. Relations in the 109<sup>th</sup> Congress*, by Kerry Dumbaugh.



The new reporting requirement is to include information on China's asymmetric and cyber-warfare capabilities. The bill was signed on January 28, 2008.

## **Other Legislation**

### **H.Con.Res. 73 (Tancredo)**

Expressing the sense of Congress that the United States should resume diplomatic relations with Taiwan. Introduced on February 16, 2007. Referred to the House Foreign Affairs Committee.

### **H.Con.Res. 136 (Chabot)**

Expressing the sense of Congress that the United States lift restrictions on high-level visits by officials from Taiwan and allow direct high-level dialogue between officials from both governments. Introduced on May 1, 2007. Referred to the House Foreign Affairs Committee, which held mark-up on June 26, 2007. The House passed the measure by voice vote on July 30, 2007, and the measure was referred to the Senate Foreign Relations Committee on August 3, 2007.

### **H.Con.Res. 137 (Berkley)**

Expressing the sense of Congress that the United States should initiate immediate negotiations to enter into a free trade agreement with Taiwan. Introduced on May 1, 2007. Referred to the House Ways and Means Committee's Trade Subcommittee on May 15, 2007.

### **H.Res. 552 (Marshall)**

Calling on the PRC to remove barriers on U.S. financial services firms doing business in China. Introduced July 17, 2007, and referred to the House Financial Services Committee. The House passed the measure on the suspension calendar on September 5, 2007, by a vote of 401-4.

### **H.R. 782 (Ryan)**

The Fair Currency Act of 2007. (Related Senate bill S. 796.) The bill amends Title VII of the Tariff Act of 1930 to provide that artificial exchange rates by any country are countervailable export subsidies. The bill requires the U.S. Treasury Secretary annually to analyze foreign countries' exchange rate policies and embark on negotiations with those countries whose currencies are judged to be in "fundamental misalignment." Introduced January 31, 2007. Referred to House Ways and Means Committee and in addition to the House Committees on Financial Services; Foreign Affairs; and Armed Services.

### **H.R. 1229 (Davis, A., English)**

The Non-Market Economy Trade Remedy Act of 2007. The bill amends long-standing U.S. law by extending the applicability of countervailing duty measures also to nonmarket economy countries in addition to market economy countries. The bill also notes that "special difficulties" may exist in calculating benefit amounts in China and authorizes U.S. authorities to use "terms and conditions prevailing outside of China" in such instances. Introduced on February 28, 2007. Referred to the House Ways and Means Committee (February 28) and to the Trade Subcommittee (March 7), which held hearings on March 15, 2007.

**H.R. 1390 (Tancredo, Rohrabacher)**

A bill to require Senate confirmation of individuals appointed to serve as the Director of the American Institute in Taiwan. Introduced March 7, 2007. Referred to the House Foreign Affairs Committee.

## Chronology

**12/05/08**—The fifth U.S.-China Strategic Economic Dialogue meeting wound up in China. The governments agreed to deepen cooperation on financial services, energy and the environment, trade and investment, and food safety.

**11/19/08**—Several hundred taxi drivers reportedly went on strike in Chongqing, China, in protest over plans to add more cabs. Also, the U.S. FDA opened an office in Beijing to increase inspections of Chinese food and medicine.

**11/17/08**—Reports said that 2,000 people rioted in Gansu province over the city government's plans to move its offices to a nearby county. The protesters reportedly feared that the move would lower property values and raise unemployment.

**10/08/08**—A federal judge ordered that 17 Uighurs held at Guantanamo Bay be released by the end of the week. The men had been held since 2002.

**10/07/08**—The PRC announced it was cancelling meetings between U.S. and PRC military officials and planned exchanges on disaster relief and humanitarian assistance, as a result of the U.S. announcement on arms sales to Taiwan.

**10/03/08**—The Defense Security Cooperation Agency (DSCA) notified Congress of the possible Foreign Military Sale to Taiwan of six different types of defense articles and equipment, consistent with the policies of P.L. 96-8, which could total a maximum of approximately \$6.4 billion.

**07/20/08**—China reportedly warned Exxon to pull out of an oil exploration deal with Vietnam because it infringed on Chinese sovereignty rights in the South China Sea.

**07/18/08**—The WTO ruled that China was in violation of WTO trade rules by imposing punitive “buy local” tariffs on foreign automakers.

**06/03/08**—The PRC in effect disbarred two attorneys, Jiang Tianyong and Teng Biao, by refusing to renew their annual licenses. The two had offered to defend Tibetan activists charged in the March 2008 crackdown.

**06/03/08**—Police surrounded 100 parents protesting shoddy school construction in Dujiangyan, taking some into custody and preventing the group from filing a lawsuit on the school construction issue.

**06/01/08**—At a regional security conference in Singapore, Secretary of Defense Robert Gates underscored U.S. security concerns about China's missile build-up opposite Taiwan.

## **Author Contact Information**

Kerry Dumbaugh  
Specialist in Asian Affairs  
kdumbaugh@crs.loc.gov, 7-7683