

# CRS Report for Congress

## China-U.S. Relations in the 109<sup>th</sup> Congress

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## Summary

U.S.-China relations, remarkably smooth from 2001-2004, became more problematic again in the 109<sup>th</sup> Congress. U.S. policy toward China appeared to be subject to competing reassessments. State Department officials in 2005 unveiled what they said was a new policy framework for the relationship — one in which the United States was willing to work cooperatively with a non-democratic China while encouraging Beijing to become a “responsible stakeholder” in the global system. Other U.S. policymakers appear to adopt tougher stances on issues involving China and U.S.-China relations, concerned about strong PRC economic growth and a more assertive and influential PRC diplomacy in the international arena.

Taiwan, which China considers a “renegade province,” remained the most sensitive issue the two countries face and the one many observers fear could lead to Sino-U.S. conflict. Late in 2004 PRC officials created more tension over Taiwan by passing an “anti-secession” law (adopted in March 2005) aimed at curbing Taiwan independence. U.S. officials regarded the action as provocative and unconstructive. In February 2006, Taiwan President Chen Shui-bian suspended the activities of the National Unification Council, a symbol of Taiwan’s commitment to unification with China, citing in part the 2005 anti-secession law as a reason for his action. Both the PRC and Taiwan moves raised U.S. concerns about cross-strait stability.

Another matter of growing U.S. concern was China’s increasing global “reach” and the consequences that the PRC’s expanding its international influence have for U.S. interests. To feed its appetite for resources, China during 2005-2006 steadily signed trade agreements, oil and gas contracts, scientific cooperation agreements, and multilateral security arrangements with countries around the world, some of which are key U.S. allies. Some U.S. observers viewed these activities as a threat to the United States. Even if simply the natural outcome of China’s economic development, these and other PRC activities appeared to pose critical future challenges for U.S. economic and political interests.

Much U.S. concern about China appeared driven by security calculations at the Pentagon and in Congress. In remarks in June 2005, Secretary of Defense Donald Rumsfeld questioned the motivations behind China’s expanding military budget and stated that a congressionally mandated DOD report concluded Beijing is greatly understating its military expenditures. Bilateral economic and trade issues also remained matters of concern, with U.S. officials and some Members of the 109<sup>th</sup> Congress particularly criticizing China’s failure to halt piracy of U.S. intellectual property rights (IPR) and China’s continued constraints on its currency valuation. In the February 2005 State Department Country Reports on Human Rights Practices, U.S. officials again classified China’s record as poor. Beijing continued its crackdown on independent religious organizations and political activists.

The 109<sup>th</sup> Congress considered these and other issues in a number of legislative vehicles, including The John Warner National Defense Authorization Act for FY2007 (P.L. 109-364), and S. 295, a bill to authorize punitive action if China’s currency is not reevaluated.

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# China-U.S. Relations in the 109<sup>th</sup> Congress

## Background and Overview

### Introduction

U.S.-China relations, remarkably smooth from 2001-2004, became more problematic again in the 109<sup>th</sup> Congress as some U.S. policymakers appeared to begin adopting tougher stances on issues involving China and U.S.-China relations. Throughout much of the George W. Bush Administration, U.S.-China relations were smoother than they had been at any time since the Tiananmen Square crackdown in 1989. The two governments resumed regular high-level visits and exchanges of working level officials, 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 continued to invest heavily in China, and some PRC companies began investing in the United States.

Despite this, thorny problems continued 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, and the economic advantage China gains from pegging its currency to a basket of international currencies. In addition, China's accelerating rise in the world has significant implications for U.S. global power and influence. 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 an increasing number of economic and energy-related agreements around the world, many of them with key U.S. allies. A number of new developments and statements since late 2004 suggest that U.S. policymakers are reassessing U.S. policies in light of strong PRC economic growth and a more assertive PRC international posture.

This report addresses relevant policy questions, trends, and key legislation in U.S.-China relations during the 109<sup>th</sup> Congress, and provides a chronology of developments and high-level exchanges from January 2005 onward. 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*, by Kerry Dumbaugh. CRS products can be found on the CRS website at [<http://www.crs.gov/>].

## Key Issues

### North Korea

**October 2006 Nuclear Test.** Pyongyang's nuclear weapons test on October 9, 2006, posed new challenges for PRC policy goals in Asia, on the Korean peninsula, and with the United States. Proponents of the view that China is sincere in its desire to prevent nuclearization of the Korean peninsula saw Pyongyang's October test as a blatant disregard for PRC views and interests, a signal that Beijing has little leverage with Pyongyang, and a serious challenge to PRC standing as a credible interlocutor on the North Korean issue. The test was preceded several months earlier by a series of missile launches that North Korea conducted on July 4, 2006 — an event which elevated the North Korean issue to an even more prominent position in the U.S. political agenda with China.

The evolving PRC reaction in the weeks following the October 9<sup>th</sup> test appeared to encapsulate the conflicting political and strategic motivations thought to affect China's policymaking on North Korea. Beijing's initial reaction was unprecedentedly harsh, and speculation in the press and by some American experts at the time was that the PRC now would be forced to become more coercive in its North Korea policy.<sup>1</sup> A statement released on October 9, 2006 by China's Ministry of Foreign Affairs strongly criticized the North Korean action as a "stubbornly defiant" disregard of the international community's and China's "firm, unshakeable, and consistent" opposition to Pyongyang's nuclear program.<sup>2</sup> The statement went on to say that China "strongly demands that the DPRK side abide by its commitment to non-nuclearization." According to a Foreign Ministry spokesman, the October 9<sup>th</sup> test had "a negative impact" on Sino-North Korean relations.<sup>3</sup> Some news accounts maintained that the PRC in subsequent weeks began augmenting its military forces along the Sino-North Korean border and started erecting barbed-wire fences along some stretches of the border.<sup>4</sup>

But in other instances, Beijing's resolve appeared to be fluctuating. Within days of the North Korean October 9<sup>th</sup> test, PRC spokesmen were emphasizing that China was committed to maintaining friendly and cooperative ties with North Korea, and that Beijing's goal was not to exact "punishment" on North Korea but to take

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<sup>1</sup> Tkacik, John, "A new tack for China after North Korea's nuclear test?" *The Heritage Foundation*, Webmemo #1236, October 11, 2006.

<sup>2</sup> PRC Foreign Ministry Issues Statement on DPRK Nuclear Test, *Beijing Xinhua Domestic Service, in Chinese*, translated in *FBIS*, FEA20061009028538, October 9, 2006.

<sup>3</sup> OSC Analysis, "China moderating criticism of DPRK in bid to restart talks," CPF20061013307001, October 13, 2006.

<sup>4</sup> Caryl, Christian and Lee, B.J., "Fed up with Kim? Everybody is exasperated with North Korea's capricious leader — including his allies in Beijing." *Newsweek*, October 9, 2006. Fields, Robin and Magnier, Mark, "N. Korea sanctions hand on bridge across the Yalu...", *Los Angeles Times*, October 19, 2006, p. A-1.

“appropriate and moderate” measures designed to further negotiations.<sup>5</sup> On October 14, 2006, China voted to support a U.N. resolution condemning North Korea’s nuclear test, including sanctions prohibiting sales of military systems or luxury goods to North Korea and an immediate freeze of North Korean financial assets.<sup>6</sup> After the U.N. vote, however, China said it would not participate in inspections of North Korean cargo transiting its borders out of fear such inspections would lead to conflict, then reversed that position within days after heavy pressure from the United States. Subsequent press reports stated that Chinese banks had begun blocking financial transactions with North Korea,<sup>7</sup> and that Chinese officials were preparing to reduce oil shipments and take other actions if North Korea refused to return to the Six Party Talks.<sup>8</sup>

**Six Party Talks.** After over a year of stalemate and months of intensive diplomacy behind the scenes, Six-Party Talks on North Korea’s nuclear program began again in Beijing with two meetings held in July-August 2005 and September 2005. With both the North Korean and U.S. sides appearing to have moderated their agendas, the talks resulted in the adoption of the first written agreement arising from the talks — a joint statement of principles drafted with heavy Chinese involvement. In the joint statement, the North Koreans agreed to dismantle their nuclear program, and the United States and the four other participants agreed to discuss providing North Korea with a light water reactor “at an appropriate time.” But in the days following the release of the joint statement, it became evident that the United States and the North Koreans had different views about the proper sequencing and timing of these two events. The fifth round of Six-Party Talks was held in Beijing in November 2005.<sup>9</sup>

The road to the North Korean nuclear crisis 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 countries suspended energy assistance to North Korea and the latter withdrew from the Nuclear Non-Proliferation Treaty and restarted its 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 — still the venue for nuclear discussions with North Korea.

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<sup>5</sup> “Foreign Ministry spokesman Liu Jianchao answers reporters’ questions at regular news conference on October 12, 2006.” Beijing Ministry of Foreign Affairs, translated in *FBIS*, CPP20061012038001, October 12, 2006.

<sup>6</sup> Text of U.N. resolution on N. Korea sanctions, *Associated Press*, October 14, 2006.

<sup>7</sup> Fairclough, Gordon and King, Neil, “Chinese banks begin halting business with North Korea — Beijing envoy meets Kim in Pyongyang as Rice visits Seoul,” *The Wall St. Journal, Asia*, October 20, 2006, p. 1.

<sup>8</sup> Kahn, Joseph, “China seems set to harden stance. New measures against North Korea could include reduced oil shipments.” *The New York Times*, October 20, 2006, p. 3.

<sup>9</sup> See CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry Niksch.

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 in 2005-2006, Beijing still stopped short of promising to put further pressure on North Korea, and continued to prop up the North Korean regime with supplies of food and fuel and to advocate bilateral U.S.-North Korean dialogue.<sup>10</sup>

## **Unocal: PRC Bids to Purchase U.S. Companies**

Although PRC investment in the United States long has been minimal, in 2004 PRC companies began to make several high-profile purchases and bids for American companies. In December 2004, the PRC's Lenovo Group Ltd. purchased IBM's personal computer division for \$1.25 billion. On June 21, 2005, the Haier Group, the PRC's preeminent refrigerator manufacturer, teamed with a consortium of investors in a \$1.28 billion offer for the Maytag Corporation, owner of the Amana, Jenn-Air, and Hoover brands. In the most sensitive case, China National Offshore Oil Corporation (CNOOC), one of the PRC's largest state-controlled companies, on June 21, 2005, made an unsolicited cash bid of \$18.5 billion for the U.S. oil company Unocal, topping the winning bid of \$16.4 billion made two months earlier by California-based Chevron. The CNOOC bid set off a spirited debate about the national security risks of selling American energy assets to the PRC.<sup>11</sup>

Energy economists and business representatives who saw the CNOOC offer as no economic or security threat to U.S. interests stressed that Unocal's U.S. production is small — 57,000 barrels a day in a total U.S. output of 7.3 million barrels a day; pointed out that most of Unocal's production assets are in Asia and committed in long-term supply contracts to the Asian market; and said that Unocal has no technology that needs to be protected for security reasons.<sup>12</sup> Opponents of the deal raised concerns about U.S. security. They asserted that U.S. oil reserves and energy companies are vital strategic assets, and that the United States would be economically vulnerable if they were owned by a Communist country; that Unocal platforms in Alaska's Cook Islands Inlet and deep-sea exploration platforms in the Gulf of Mexico would provide ideal vantage points for PRC observation of U.S.

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<sup>10</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>11</sup> In a June 17, 2005 letter to President Bush, California Congressmen Richard Pombo and Duncan Hunter urged the President to begin a review of the U.S. security implications of such a sale. The letter was made available to *Reuters*.

<sup>12</sup> These views are espoused, for instance, by Robert J. Samuelson, economic columnist for *Newsweek* ("Let's Stay Out of This Fight...", *Newsweek*, July 11, 2005); Philip Verleger, a specialist in the economics of international energy at the Institute for International Economics in Washington DC ("Many Oil Experts Unconcerned Over China Unocal Bid," *Washington Post*, July 1, 2005, p. D01); and Paul Magnusson, international trade economist for *BusinessWeek* ("Play Fair, and Insist That China Do the Same..." *BusinessWeek*, July 11, 2005, p. 31.)

military activities; and that sale of Unocal holdings throughout Asia would push the region further into China's economic orbit.<sup>13</sup> Chevron executives argued further that CNOOC lacked the deep-water exploration skills that Chevron brought to the table and would thus be unable to increase Unocal domestic production as much as Chevron would.

Some state governments pressed for assurances that the proposed CNOOC purchase would not adversely affect Unocal obligations, such as environmental clean-up and pension and health care benefits.<sup>14</sup> Some Members of Congress appeared most concerned about the potential security risks in the CNOOC deal. On June 30, 2005, the House approved an amendment (333-92) by Representative Kilpatrick to H.R. 3058 that prohibited the Treasury Department from using federal monies to approve the CNOOC bid for Unocal. The same day, the House adopted H.Res. 344 (398-15), urging President Bush to immediately review any CNOOC final agreement to buy Unocal. Faced with this stiff American opposition, which CNOOC executives termed as presenting an "unacceptable risk" to the takeover effort, CNOOC dropped its Unocal bid on August 2, 2005.

## **U.S.-PRC "Senior Dialogue"**

U.S. Treasury Secretary Henry Paulson continued the U.S. efforts initiated in 2005 by U.S. Deputy Secretary of State Robert Zoellick to maintain strategic dialogues with the PRC. On September 20, 2006, during his first trip to China as Treasury Secretary, Paulson announced that he would chair a new mechanism for bilateral dialogue — the U.S.-China Strategic Economic Dialogue. According to the Secretary, the goal of the Dialogue is "to take a long-term, a strategic view to managing this relationship where we focus on fundamental, long-term issues."<sup>15</sup> The Senior Dialogue will not supplant current ongoing Sino-U.S. dialogues, such as the Joint Commission on Commerce and Trade, the Joint Economic Committee, and the Joint Commission on Science and Technology.

The idea for an ongoing high-level dialogue was suggested by PRC President Hu Jintao during a meeting with President Bush at the November 2004 Asia Pacific Economic Cooperation (APEC) meeting in Chile. Preparations were finalized during Secretary of State Condoleezza Rice's subsequent visit to China. On August 1, 2005, U.S. Deputy Secretary of State Robert Zoellick initiated the Senior Dialogue process in Beijing, meeting with his counterpart, Vice Foreign Minister Dai Bingguo.

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<sup>13</sup> Similar views, for instance, are held by John Tkacik, senior research expert on China at the Heritage Foundation ("Say No to CNOOC's bid for Unocal," *Asian Wall St. Journal*, June 29, 2005, p. A5); and Larry Wortzel, member of the congressionally established U.S. China Security Review Commission ("The Big Tug of War Over Unocal," *The New York Times*, July 6, 2005, p. 1.

<sup>14</sup> California, New Mexico, Pennsylvania, Montana, and Texas attorneys general are said to be seeking Unocal assurances that CNOOC ownership would not undermine Unocal's obligations. "States to Weigh In on Unocal Offer..." *Los Angeles Times*, July 6, 2005, p. C-1.

<sup>15</sup> Treasury Secretary Henry M. Paulson press briefing in Beijing, September 20, 2006. Joint statement at [<http://www.treas.gov/press/releases/hp105.htm>].



On December 7, 2005, Minister Dai and Secretary Zoellick held the second Senior Dialogue meeting in Washington, DC, discussing “the strategic and conceptual framework” of U.S.-China relations and other issues.<sup>16</sup> The talks, planned for twice annually, are the first time in the U.S.-PRC relationship that dialogue at this level of seniority has been held on a regular basis. The talks suggest, in the words of a U.S. official spokesman, an American recognition of “the role that China is playing in Asia, in global affairs, [and] as a member of the U.N. Security Council.”<sup>17</sup>

Along with the establishment of regular U.S.-China talks, a speech given by Deputy Secretary of State Zoellick on September 21, 2005, suggested an effort underway within the Administration to explore a new framework for U.S. diplomacy with China. Zoellick’s speech appeared designed to strike a balance somewhere between the “open door/engagement” school of thought and the more dire security threat concerns regularly raised by Pentagon planners (as expressed in the latest Pentagon report, *Military Power of the People’s Republic of China*, released on May 24, 2006). Zoellick’s September 2005 speech emphasized the benefits of U.S.-China cooperation but focused on urging the PRC to become a “responsible stakeholder” — to not only reap the economic benefits of the global system but also to assume greater responsibilities in its global economic and political diplomacy. According to Zoellick, the United States was prepared to work cooperatively with a non-democratic China even as U.S. officials sought to improve China’s democratic prospects.

## Taiwan

Taiwan remained the most sensitive and complex issue that U.S. policymakers face in bilateral Sino-U.S. relations.<sup>18</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. On December 27, 2004, the PRC emphasized this point again in its fifth white paper on national security, entitled

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<sup>16</sup> Deputy Secretary Zoellick used the phrase to describe the first senior dialogue meeting in Beijing in August 2005, at which the two sides discussed energy security, terrorism, economic development and trade, and issues of democracy, freedom, and human rights. According to the State Department, participants in the second Senior Dialogue and the Economic Development and Reform Dialogue, which met simultaneously in December 2005, included Deputy Secretary Robert Zoellick and Under Secretary for Economic, Business and Agricultural Affairs Josette Shiner, Director of Policy Planning Stephen Krasner, Acting EB Assistant Secretary Larry Greenwood, EAP Senior Adviser James Keith, APEC Senior Official Michael Michalak, National Security Council Senior Director for Asia Michael Green, Council of Economic Advisers Member Dr. Matthew Slaughter, Deputy Assistant Secretary of the Treasury David Loevinger, and Deputy Assistant Secretary of Energy David Pumphrey.

<sup>17</sup> State Department spokesman Richard Boucher in the daily press briefing of April 8, 2005.

<sup>18</sup> For an analysis of current problems and challenges for U.S. policy toward Taiwan, see CRS Report RL33684, *Taiwan-U.S. Political Relations: New Strains and Changes*, by Kerry Dumbaugh.

“China’s National Defense in 2004.”<sup>19</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 700 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.”

Concerns intensified in the 109<sup>th</sup> Congress because of Taiwan’s 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. Since 2004, the DPP has taken a beating in several electoral contests: the KMT was returned to its slim majority in the legislature in December 2004 elections, and KMT candidates won 14 of 23 constituencies in local elections for city mayors and county magistrates, held on December 3, 2005.

**Corruption Scandals in the Chen Administration.** Corruption scandals and controversial political decisions plagued the Chen Administration in recent months, weakening both his political authority at home and his relationship with U.S. officials. Allegations that some key presidential advisers and some of the president’s own family members had profited from insider trading led to a second recall vote in the Legislative Yuan on October 13, 2006. Both the second recall motion and the first, held on June 27, 2006, failed to achieve the 2/3 vote majority needed for passage. According to some opinion polls at the time, a majority of Taiwan citizens felt the president should step down before his term ends in 2008.<sup>20</sup>

**“Abolishing” Taiwan’s Unification Council and Guidelines.** New political controversy also arose when President Chen announced on February 27, 2006, that Taiwan’s National Unification Council (NUC) will “cease operations” and the Guidelines on National Reunification (GNR) will “cease to apply.” The NUC and GNR, two initiatives strongly identified with the former KMT government, had importance chiefly for their symbolic embrace of that government’s commitment to eventual unification with China.

President Chen first mentioned he was considering scrapping the NUC/GNR on January 29, 2006. That statement appeared to surprise U.S. officials, who responded by publicly reiterating the U.S. “one-China” policy, secretly sending a special envoy delegation to Taiwan to express concerns, and reportedly privately criticizing the

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<sup>19</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>].

<sup>20</sup> On June 18, 2006, for instance, a poll by *The China Times* revealed that 53% of respondents believed Chen should step down.

decision to Taiwan officials.<sup>21</sup> The softer formulation of the language in Chen's February 27, 2006 decision was regarded as a compromise to strong U.S. concern over the cross-strait implications of "abolishing" both entities — a decision that at least one PRC scholar opined could result in a "non-peaceful" response by Beijing.<sup>22</sup>

President Chen's NUC decision sparked controversy and policy conflicts in Taiwan. Critics maintained that the decision was a dangerous and unnecessary provocation to Beijing, that it violated President Chen's 2000 inaugural pledge of not seeking to abolish the NUC, and that it unilaterally changed the "status quo" in the Taiwan Strait. Supporters of the President's statement asserted that Beijing's increasing missile deployments opposite Taiwan and its adoption of an "Anti-Secession Law" (see below) violated the "no use of force" condition under which Chen's original pledge was made. These PRC moves, Chen's supporters said, had already changed the status quo in the Strait.

**PRC Anti-Secession Law.** On March 14, 2005, the PRC's National People's Congress (NPC) officially adopted an "anti-secession law," aimed at reining in Taiwan independence advocates and creating a legal basis for possible PRC military intervention in Taiwan. American observers and U.S. officials termed the initiative counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004. Critics feared that the anti-secession law increased the possibility of conflict with Taiwan and that the provision could be used to harass independence advocates in Taiwan by, for example, labeling them "criminals" and demanding their extradition from third countries. While many of the new law's 10 articles appeared relatively conciliatory, Article 8 was of special concern because of its specific authorization of force. Article 8 states:

Article 8. In the event that the 'Taiwan independence' secessionist 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 measures to protect China's sovereignty and territorial integrity. The State Council and the Central Military Commission shall decide on and execute the non-peaceful means and other necessary measures...<sup>23</sup>

**Changing PRC Political Pressure on Taiwan.** In the aftermath of the heavy-handed anti-secession law, PRC officials appeared to decide that a Taiwan

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<sup>21</sup> In a January 20, 2006 press briefing, Deputy State Department spokesman Adam Ereli responded to a question on the statement with "we certainly weren't expecting it, we weren't consulted about it, so I'd say it was a surprise." On February 14, 2006, a White House National Security Council official, Dennis Wilder, reportedly with State Department Taiwan official Clifford Hart, secretly visited Taiwan to express U.S. concern and was reportedly told that the decision could not be changed. Reuters, "Taiwan's pro-independence Chen Snubs U.S.: Paper," February 22, 2006.

<sup>22</sup> Chang, S.C., "PRC scholar warns of 'non-peaceful response' to Chen's NUC game," *Central News Agency*, February 23, 2006.

<sup>23</sup> Full text of the law can be found in the Chinese newspaper *China Daily* at the following website [[http://english.people.com.cn/200503/14/eng20050314\\_176746.html](http://english.people.com.cn/200503/14/eng20050314_176746.html)].

policy of greater nuance and finesse may be of more service to mainland policy interests. In subsequent months, then, Beijing officials took a series of actions designed to increase pressure on the Chen government to be more accommodating to mainland concerns. While some China-watchers described these measures as positive developments for cross-strait relations, others saw the moves as an effort by Beijing to capitalize on and exploit Taiwan's internal political divisions and to further isolate and weaken President Chen and his pro-independence DPP government.<sup>24</sup> Among other measures, Chinese leaders issued a series of invitations to key political leaders in the KMT, PFP, and other Taiwan opposition parties — but not to the elected government — to visit China and hold talks. U.S. officials expressed concern about the motivations of the visits (which one U.S. government official termed “not benign on either side”) and stressed that PRC officials should be speaking with the democratically elected Taiwan government.

**U.S. Taiwan Policy and U.S. Arms Sales.** U.S. policymakers generally continued to try 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>25</sup> The George W. Bush Administration, regarded as having been more solicitous and supportive of Taiwan than any previous U.S. Administration since 1979,<sup>26</sup> took a number of steps in its first term:

- Approved a robust arms sales package to Taiwan, including Kidd-class destroyers, diesel submarines, and P-3C Orion aircraft.<sup>27</sup>
- Enhanced military-to-military contacts, including meetings between higher-level officers; cooperation on command, control, and communications; and training assistance.<sup>28</sup>
- Approved transit visas for top Taiwan officials to come to the United States, including Taiwan's President and Vice-President.

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<sup>24</sup> “It’s classic divide-and-conquer strategy: Assemble the most allies possible and isolate your enemy.” Jean-Philippe Beja, senior fellow at the Center for International Studies and Research in Paris. Cited in Magnier, Mark and Tsai Ting-I, “China tries new tactic with Taiwan,” *Los Angeles Times*, April 29, 2005, p. A-3.

<sup>25</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,”* by Kerry Dumbaugh.

<sup>26</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>27</sup> See CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

<sup>28</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.

But faced with increasingly heated political battles between the pro-independence DPP and the status-quo KMT, Bush Administration officials by the 109<sup>th</sup> Congress had dialed back their earlier favorable rhetoric of the Taiwan government. The apparent reassessment was emphasized on December 9, 2003, when President Bush, while standing next to visiting PRC Premier Wen Jiabao, issued a 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>29</sup> In addition to criticizing President Chen Shui-bian’s February 27, 2006 National Unification Council decision, U.S. officials during the 109<sup>th</sup> Congress expressed increasing frustration over Taiwan’s lagging arms purchases from the United States. Political disagreements in Taiwan continued to keep the government from purchasing much of the weapons President Bush approved for sale in 2001. Held hostage to the disagreements was a special arms acquisition budget that the DPP 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. The \$6.3 billion compromise arms budget package was blocked again by the Taiwan opposition coalition on October 24, 2006. U.S. AIT Director Steve Young held a press conference in Taipei on October 26, 2006, issuing a stern warning to Taiwan legislators about the move, saying “The United States is watching closely and will judge those who take responsible positions on this as well as those who play politics.”<sup>30</sup> 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>31</sup>

**Taiwan and the World Health Organization (WHO).** For years, Taiwan’s application for observer status in the WHO has been defeated — as it was again on May 16, 2005, and May 22, 2006, at the annual meetings of WHO’s administrative arm, the World Health Assembly (WHA). Opposition from the PRC routinely has blocked Taiwan’s bids on political grounds. PRC officials argue 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

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<sup>29</sup> For more background information on Taiwan and its history with the PRC, see CRS Report RL33510, *Taiwan: Recent Developments and U.S. Policy Choices*; and 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*, both by Kerry Dumbaugh.

<sup>30</sup> Press Conference comments of U.S. AIT Director Stephen Young, Taipei, Taiwan, October 26, 2006. [<http://www.ait.org.tw/en/news/speeches/docs/20061026-dir.pdf>]

<sup>31</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.

an issue.”<sup>32</sup> In 2004, the 108<sup>th</sup> Congress enacted legislation (P.L. 108-28) requiring the Secretary of State to seek Taiwan’s observer status in WHO at every annual WHA meeting.<sup>33</sup>

**Official Taiwan-PRC Contacts.** Official government-to-government 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>34</sup> But while official talks have flagged, indirect ties and unofficial contacts have continued and saw significant breakthroughs during the 109<sup>th</sup> Congress. Taiwan businesses were increasingly invested across the strait, although the exact figures remained unclear. Taiwan-China trade also has increased dramatically over the past decade, so that China by 2006 had surpassed the United States as Taiwan’s most important trading partner.

This increasing economic interconnectedness with the PRC put pressure on Taiwan’s DPP government in 2005-2006 to further accommodate the Taiwan business community by easing restrictions on direct travel and investment to the PRC. On November 18, 2005, Taiwan and China announced that for only the second time (the first being January 2005), direct cross-strait charter flights would be allowed for the duration of the Lunar New Year from January 20 - February 13, 2006. The arrangements for 2006 were less restrictive than those for 2005. In addition to expanding eligibility for the flights to all Taiwan residents, the number of flights was expanded (to 36 from each side) as well as the number of destinations (adding Xiamen in 2006 to the previous year’s approved destinations of Beijing, Shanghai, and Guangzhou). But such cross-strait accommodations remained 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>35</sup> Thus, each Taiwan government decision to facilitate economic links with the PRC represented an uneasy political compromise.

## Avian Flu

The close proximity of millions of people, birds, and animals in southern China made it a common breeding ground for deadly types of influenza viruses, including the new H5N1 virus now thought to be endemic in poultry throughout Asia. Added to this, the PRC’s poor public health infrastructure and the traditionally secretive, non-transparent policy approach of its communist government made international

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<sup>32</sup> A State Department spokesman, in response to a press question at the State Department press briefing of March 20, 2002.

<sup>33</sup> The bill, S. 2092, was enacted as P.L. 108-235.

<sup>34</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>35</sup> For instance, there are reportedly 300,000 Taiwan citizens now residing and working in Shanghai.

health specialists particularly concerned about the PRC as a potential contributor to a global flu pandemic. According to the World Health Organization (WHO), H5N1 is now considered to afflict not only domestic poultry and migratory birds in China, but also parts of China's pig population.<sup>36</sup> During a U.N. summit on September 13, 2005, President George Bush and PRC President Hu Jintao reportedly discussed greater avian flu coordination, including an aggressive containment approach and establishment of an early-warning system.<sup>37</sup> Two months later, on November 16, 2005, Chinese officials reported the country's first human cases of avian flu.<sup>38</sup> As of the end of the 2005-2006 flu season in August 14, 2006, the number of human avian flu cases in the PRC had grown to twenty-one, with fourteen fatalities.<sup>39</sup>

As a result of the 2003 global crisis with SARS, a new virus which originated in China in 2003-2004, PRC leaders appeared to grow more sensitive to the potential catastrophic effects of an avian flu pandemic during the 109<sup>th</sup> Congress. The PRC Ministry of Health reported it had established 63 influenza monitoring labs throughout China<sup>40</sup> and had crafted and published an emergency plan for an influenza pandemic, including a four-color-coded notification system.<sup>41</sup> On November 2, 2005, the government announced further aggressive anti-flu measures. These included an earmark of 2 billion yuan (\$420 million) from China's budget to fight avian flu, as well as the banning of poultry imports from 14 countries affected by the virus. On January 17-18, 2006, the PRC co-hosted in Beijing an international conference on avian and human influenza at which participating countries pledged \$1.9 billion to fight the disease.<sup>42</sup>

Despite these preparations, some international health experts remained concerned about the PRC's transparency on avian flu issues. In late April and June 2005, for instance, PRC officials reported an unknown cause for the suspicious sudden deaths of thousands of migratory birds in western China's Qinghai Lake. In July 2005, a virology team from Hong Kong reported in a scientific journal that their research showed the Qinghai bird deaths were from an H5N1 strain genetically similar to that originating in south China. The Hong Kong report was vigorously

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<sup>36</sup> According to the U.S. Centers for Disease Control and Prevention. See website at [<http://www.cdc.gov/flu/avian/outbreaks/asia.htm>].

<sup>37</sup> King Jr., Neil, "Hu pledges efforts to ease U.S. strains — ," *Asian Wall St. Journal*, September 15, 2005, p. A1.

<sup>38</sup> On December 15, 2005, PRC officials announced the sixth human case of avian flu.

<sup>39</sup> This number for the 2005-2006 flu year was on the World Health Organization website as of December 4, 2006: [[http://www.who.int/csr/don/2006\\_08\\_14/en/index.html](http://www.who.int/csr/don/2006_08_14/en/index.html)]

<sup>40</sup> *Beijing Liaowang* in Chinese. Translated on September 26, 2005, in FBIS, CPP20051018050001.

<sup>41</sup> PRC Ministry of Health, "Preparations and Plan for an Influenza Pandemic Emergency," September 28, 2005, translated in FBIS, CPP20051012335002 (October 12, 2005).

<sup>42</sup> In addition to the PRC, the conference was co-hosted by the World Bank and the European Commission.

criticized as inaccurate by Jia Youling, an official with the PRC Ministry of Agriculture charged with coordinating avian-flu eradication.<sup>43</sup>

President George Bush and PRC President Hu Jintao discussed greater avian flu coordination on several occasions during the 109<sup>th</sup> — during a meeting at the U.N. summit in September 2005 and during Bush’s visit to Beijing in November 2005.<sup>44</sup> During the latter visit, the two sides initialed a joint initiative on avian flu, promising to participate in joint research on human and animal virus samples, establish a mechanism to share influenza strains for research purposes, and cooperate actively on a number of regional and international levels, including the WHO, the U.N. Food and Agriculture Organization, and the World Organization of Animal Health.<sup>45</sup> The agreement marked an important step, since world health officials consider sharing flu virus samples a key step in tracking the virus’ mutation and devising an effective vaccine. In 2005, the PRC did not provide WHO with any samples of avian flu cases in poultry.<sup>46</sup> On March 22, 2006, press accounts reported an announcement by WHO officials that China had agreed to provide up to 20 virus samples from infected poultry for study in WHO reference labs.<sup>47</sup> But this cooperation still appeared problematic as the 109<sup>th</sup> Congress drew to a close. On November 1, 2006, for instance, WHO accused PRC officials of continuing to keep virus samples secret and of failing to report on the emergence of a new H5N1 variant.<sup>48</sup> A WHO official on November 10, 2006, said that the PRC Ministry of Agriculture would finally be providing samples of avian flu virus, collected during 2004-2005, that WHO had been requesting since 2005.<sup>49</sup>

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<sup>43</sup> The independent virology team was from the University of Hong Kong and included Dr. Guan Yi, a co-author of the scientific report published in *Nature* magazine on July 7, 2005. For reference to PRC official Jia Youling’s comments, see Sipress, Alan, “China has not shared crucial data on bird flu outbreaks, officials say,” in the *Washington Post*, July 19, 2005, p. A15.

<sup>44</sup> King Jr., Neil, “Hu pledges efforts to ease U.S. strains — ,” *Asian Wall St. Journal*, September 15, 2005, p. A1.

<sup>45</sup> [<http://lists.state.gov/SCRIPTS/WA-USIAINFO.EXE?A2=ind0511c&L=us-china&D=1&H=1&O=D&P=625>]

<sup>46</sup> This appears still to be the case as of January 23, 2006; Ramirez, Luis, “WHO negotiates with China for handover of bird flu samples,” *Voice of America*, January 24, 2006.

<sup>47</sup> According to Beijing WHO official Julie Hall, the breakthrough came after WHO negotiated an agreement with China’s Agriculture Ministry that will assure PRC scientists they will receive “intellectual property rights and ... commercial rights” for their avian flu work on poultry. According to health experts, China’s Health Ministry has regularly been providing WHO with samples of human avian flu cases. Oleson, Alexa, China turns over bird flu samples to WHO,” *Associated Press*, March 22, 2006.

<sup>48</sup> “WHO criticizes China for not releasing bird flu data,” *Avian Influenza News & Information*, November 1, 2006.

<sup>49</sup> Ramirez, Luis, “China disputes claims of new bird flu strain,” *GlobalSecurity.org*.



## China's Growing Global Reach

Many observers during the 109<sup>th</sup> Congress began to focus on the critical implications China's economic growth and increasing international engagement have for U.S. economic and strategic interests. To feed its voracious appetite for resources, capital, and technology, China in 2005 and 2006 steadily and successfully sought trade agreements, oil and gas contracts, scientific and technological cooperation, and 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 went hand-in-hand with expanding political influence. Although some believe that PRC officials appeared more comfortable working with undemocratic or authoritarian governments, PRC outreach also extended to key U.S. allies or to regions where U.S. dominance previously was unparalleled and unquestioned. A brief survey of China's international engagement during the 109<sup>th</sup> Congress 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 were particularly visible. On December 14, 2005, China took part in the first East Asia Summit (EAS) — a fledgling grouping of 16 Asian countries, including the ten members of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, India, Australia, and New Zealand, but excluding the United States.<sup>50</sup> Russia's President Putin attended as an invited observer. According to a statement issued after the summit, the purpose of the new grouping is to permit "dialogue on broad strategic, political, and economic issues."<sup>51</sup>

The 2005 EAS meeting represented another step in a trend of growing Sino-ASEAN regional cooperation. 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 began to lower or cancel tariffs on 7,000 kinds of items, with the goal of reaching full mutual free trade by 2010.

Outside the EAS framework, China also improved its bilateral relationship with India in 2005-2006, 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. During a visit to South Asia in early April 2005, PRC Premier Wen Jiabao alluded to his stop in

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<sup>50</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>51</sup> *BBC News (international version)*, "East Asia stages inaugural summit," December 14, 2005.

India (on April 9) as his “most important agenda item” in 2005.<sup>52</sup> With the Central Asian countries of the former Soviet Union, China pursued both economic and security arrangements through the Shanghai Cooperation Organization (SCO), founded in 2001.<sup>53</sup> Within the SCO context, China cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers. China also negotiated energy deals with Australia, another U.S. regional ally, to supply liquid natural gas to southern China, and continued to explore a Sino-Australian free trade agreement.

**Japan.** Japan, considered the most important American ally in Asia, remained a notable exception to China’s recent regional diplomatic achievements throughout most of the 109<sup>th</sup> Congress. China routinely protested former Japanese Prime Minister Koizumi’s annual visits to the Yasukuni Shrine, where war criminals are also enshrined. Since Koizumi first visited the shrine in 2001, China used the issue to justify its refusal to engage in bilateral summitry, except as part of multilateral meetings. But the visit to China of Japan’s new Prime Minister, Shinzo Abe, on October 8, 2006, may signal the beginning of a thaw in Sino-Japanese relations. The trip to the PRC was Prime Minister Abe’s first foreign visit as Prime Minister.

By 2004, China (including Hong Kong) surpassed the United States as Japan’s largest trading partner,<sup>54</sup> but the political relationship remained hampered by the residual resentments of Japan’s conquest and occupation of China during World War II. Furthermore, since 2004 China’s growing economic competitiveness and expanding regional presence 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 began its own exploration activities in and around the Senkakus. Tensions also escalated over China’s oil explorations in areas of the South China Sea over which Japan also claims sovereignty.

**Russia.** Energy resources and security issues also factored 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. In March 2006, Russian President Vladimir Putin and PRC President Hu Jintao held their fifth meeting in less than a year, with President Putin announcing plans to open a gas pipeline to China within five years.<sup>55</sup> Russian leaders also met 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

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<sup>52</sup> U.S. relations with India also have been improving in recent years.

<sup>53</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.

<sup>54</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>55</sup> “Russia plans natural gas pipeline to China,” *Associated Press*, March 21, 2006.

would begin holding regular security consultations.<sup>56</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. The two countries held eight days of joint military exercises beginning August 18, 2005, involving 7,000 Chinese troops and 1,800 Russian troops. 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.

**European Union.** China also courted the European Union (EU) intensively, and Sino-EU contacts have broadened significantly as a result. On October 24, 2006, the European Commission released a new paper to the European Parliament entitled “EU-China: Closer partners, growing responsibilities.” The document reinforced the trends remarked upon several years previously by European Commission President Jose Manuel Barroso — that 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>57</sup>

Perhaps nothing illustrated China’s growing importance in Europe as much as the EU campaign in 2005 to lift the arms embargo that it (along with the United States) has maintained against China since the Tiananmen Square crackdown in 1989. Momentum to lift the embargo appeared to accelerate early in 2005 despite a number of American efforts to derail it on the grounds that China had not made sufficient improvements in its human rights record. On February 2, 2005, the U.S. House of Representatives acted on a measure urging the EU to maintain the embargo, passing H.Res. 57 by a vote of 411-3. Senator Lugar, Chairman of the Senate Foreign Relations Committee, was 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>58</sup>

Until China’s passage of the anti-secession law on March 14, 2005, EU governments tended to dismiss American arguments that the PRC military, equipped with improved EU-provided defense technologies, could use those technologies to threaten Taiwan and U.S. forces in Asia. But these American arguments appeared strengthened by the PRC’s anti-secession law, and the EU’s campaign to lift the China arms embargo eventually abated.

**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. During the 109<sup>th</sup> Congress, China also poised itself to become 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

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<sup>56</sup> “Russia, China Tighten Security Links,” *China Daily*, February 3, 2005.

<sup>57</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>58</sup> In an interview with the *Financial Times*, February 21, 2005, p. 8.

Yadavarn oil field in exchange for China's agreeing to buy Iranian liquified natural gas.<sup>59</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>60</sup>

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 48 of Africa's 55 countries attended the CACF's third Ministerial Conference in November 2006. China also targeted resource-rich African nations such as Sudan and Angola for energy-related development.<sup>61</sup> 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>62</sup> China also evidenced 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 6 of the 24 countries that still maintain official diplomatic relations with Taiwan are on the African continent.<sup>63</sup>

**Western Hemisphere.**<sup>64</sup> There also appeared to be 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>65</sup> In addition, China's growing presence in the region during the 109<sup>th</sup> Congress has political and economic consequences for the United States. On January 25, 2005, Chile became the first Latin American county to hold bilateral negotiations with China to craft a Sino-Chilean Free Trade Agreement (FTA). The two

<sup>59</sup> Lee, Don, "China Barrels Ahead in Oil Market...", *Los Angeles Times*, November 14, 2004, p. C-1.

<sup>60</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*.

<sup>61</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>62</sup> Boxell, James, "Circle Oil in Dollars 50m Africa Drilling Deal with Chinese Group," *Financial Times* (London edition), January 28, 2005, p. 25.

<sup>63</sup> In November 2005, Taiwan maintains official relations with Burkina Faso, Chad, the Gambia, Malawi, Sao Tome and Principe, and Swaziland. Formerly, Senegal was one of Taiwan's official relationships; it announced on October 25, 2005, that it was severing official relations with Taiwan.

<sup>64</sup> See CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh and Mark Sullivan.

<sup>65</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.

governments signed a final FTA agreement on November 18, 2005. Beijing officials have said they hope the Sino-Chile FTA will become a model for similar agreements with other Latin American countries.<sup>66</sup>

Energy concerns also played a role in China's Latin-American diplomacy, particularly in Venezuela, which accounts for almost 15% of U.S. oil imports, and in Brazil, with which China announced a \$10 billion energy deal in November 2004.<sup>67</sup> As a consequence of visits between Venezuelan President Hugo Chavez and PRC Vice-President Zeng Qinghong in 2004 and 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>68</sup> Given the 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 also extended 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, was 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>69</sup>

## Economic Issues

The PRC was the third-largest U.S. trading partner during the 109<sup>th</sup> Congress, with total U.S.-China trade in 2005 estimated at \$285 billion. In addition to the efforts of PRC companies to buy American assets, mentioned earlier in this report, other issues in U.S.-China economic relations included the substantial and growing U.S. trade deficit with China (\$202 billion in 2005), repeated PRC failures to protect U.S. intellectual property rights, and the PRC's ongoing restrictive trade practices,

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<sup>66</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)].

<sup>67</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>68</sup> Bajpae, Chietigi "China's Quest for Energy Security," *Power and Interest News Report*, February 25, 2005, online at [<http://www.pinr.com/>].

<sup>69</sup> Mortished, Carl, "Chinese Chase Canadian Oil," *The Times* (London), March 5, 2005, p. 36

such as its refusal to float its currency.<sup>70</sup> (For further information, see CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne Morrison.)

**Intellectual Property Rights.** China's lack of protection for intellectual property rights (IPR) became another important issue in U.S.-China bilateral trade during the 109<sup>th</sup> Congress. 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. products remained at an estimated 90%.<sup>71</sup> U.S. officials routinely urged Beijing to crack down on IPR piracy, and Secretary of Commerce Don Evans and his successor, Secretary Carlos M. Gutierrez, as well as Treasury Secretary Henry Paulson, all stressed that China needed to do better at IPR protection.

**Currency Valuation.** Another U.S. concern during 2005-2006 was the PRC's decision to keep the value of its currency low with respect to the dollar, and indirectly with the yen and euro. 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 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 peg the RMB to a basket of currencies. The resulting small appreciation in the RMB from this action was not sufficient to assuage U.S. congressional concerns, and Senators Charles Schumer and Lindsay Graham introduced legislation (S. 295) that would have raised U.S. tariffs on PRC goods by 27.5% unless PRC currency levels appreciate. (For more information, see CRS Report RS21625, *China's Currency: A Summary of the Economic Issues*, by Wayne M. Morrison and Marc Labonte.)

## National Security Issues

**Annual Report on China's Military Power.** In May 2006, the Pentagon released its annual, congressionally-mandated report on China's Military Power, which concluded that China is greatly improving its military, including the number and capabilities of its nuclear forces, and that PRC improvements appear largely focused on a Taiwan contingency. The report maintained that this build-up posed a long-term threat to Taiwan and ultimately to the U.S. military presence in Asia.

The 2006 report continued a theme set forward in the 2005 Pentagon annual report, released on July 19, 2005. That particular report, normally submitted late, had been expected for weeks (its due date is March 1 annually), and it reportedly was delayed further in 2005 because of bureaucratic disagreement about its conclusions. The 2005 report appeared to reflect a more alarmist view about military trends in

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<sup>70</sup> See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne Morrison, for further details.

<sup>71</sup> International Intellectual Property Alliance, *2004 Special 301 Report: People's Republic of China*, February 2005, cited in CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne Morrison.

China than did earlier reports. It concluded that China is greatly improving its military, including the number and capabilities of its nuclear forces, and that this build-up poses a long-term threat to Taiwan and ultimately to the U.S. military presence in Asia. The tone of the two Pentagon reports prompted renewed congressional debate over what China's military expansion means for U.S. interests and what should be the proper U.S. response.

**Weapons Proliferation.** For many years, U.S. officials and some 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>72</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>73</sup> Although these allegations have always created problems in Sino-U.S. relations, they took on new and potentially significant implications given the Bush Administration's emphasis on controlling the spread of weapons of mass destruction as well as disclosures about nuclear weapons programs in Iran and North Korea. The PRC maintained close relationships with all three countries, including selling military equipment that could threaten U.S. forces in the region and missiles that could enhance a nuclear weapons capability.<sup>74</sup>

**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 explored continuing military contacts during the 109<sup>th</sup> Congress, although efforts to reenergize military ties met with repeated setbacks. In October 2005, U.S. Secretary of Defense Donald Rumsfeld made his first official visit to China as Secretary of Defense.<sup>75</sup> Commander of U.S. Forces in the Pacific Admiral William J. Fallon also spent a week visiting the 28<sup>th</sup> Air Division in the PRC, including inspection of a new twin-engine FB7 fighter. As a consequence of an invitation issued then by Admiral Fallon, a 10-member, high-level Chinese military delegation in June 2006 became the first PRC officers to observe a "solely-organized," large-

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<sup>72</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>73</sup> For details, see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley Kan.

<sup>74</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.

<sup>75</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

scale U.S. naval exercise in the Pacific Ocean off Guam. In addition, on November 19, 2006, the U.S. and PRC navies conducted joint search and rescue exercises in the South China Sea. The exercises ostensibly were to increase transparency and further enhance military contacts.

**PRC Submarine and the U.S.S. Kitty Hawk.** On November 14, 2006, Admiral Fallon confirmed that the previous month, reportedly on October 26, 2006, a PRC Song-class diesel submarine had surfaced undetected 5 miles from the U.S.S. Kitty Hawk carrier battle group (CVB) that was operating in waters off Okinawa.<sup>76</sup> U.S. Navy officials reportedly said that as a result of the incident, U.S. submarine defenses for the Kitty Hawk CVB would be reviewed. Admiral Fallon used the incident to call for more U.S. military cooperation with China to enhance bilateral understandings and avoid misunderstandings. A PRC Foreign Ministry spokesperson, Ms. Jiang Yu, denied reports that the sub had “stalked” and deliberately surfaced near the group of U.S. warships.

## Human Rights

The Bush Administration generally has favored selective, intense pressure on individual human rights cases and on rule of law rather than the broader approach adopted by previous American administrations. The PRC government periodically has acceded to this White House pressure and released early from prison political dissidents — usually citing health reasons and often immediately preceding visits to China by senior Bush Administration officials. On March 14, 2005, the PRC released Uighur businesswoman Rebiya Kadeer, arrested in 1999 for “revealing state secrets.” The same day, the U.S. government announced that it would not introduce 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.

There were no such symbolic gestures before President Bush’s November 2005 visit to China. Moreover, President Bush, during his Asia visit, publicly adopted a different human rights approach, making universal freedom, religious freedom, and democratization appear to be the centerpiece of U.S. policy in Asia. There was little sign that the President’s November remarks about the U.S. position on human rights affected subsequent PRC policies, although there was growing evidence of increasing social demands within China for greater accountability, transparency, and responsiveness in government.

On December 2, 2005, the first U.N. torture investigator allowed to visit China, Manfred Nowak, stated his conclusion that while torture was on the decline (China outlawed it in 1996), it was still a widespread problem in Chinese prisons. Beginning November 21, 2005, Nowak spent two weeks visiting Chinese prisons and speaking to detainees. Nowak submitted his report to the United Nations on March 10, 2006.

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<sup>76</sup> Gertz, Bill, “China sub secretly stalked U.S. fleet; surfaced within torpedo range of carrier battle group,” *The Washington Times*, November 13, 2006, p. A01.



**New 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 Chinese citizens. During the 109<sup>th</sup> Congress, Beijing increasingly viewed these new information sources as potential threats to the central government's ability to control and shape information flows and attempted to restrict and control the scope of Web content and access. 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>77</sup> Among other things, the regulations prohibited 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; required 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 prohibited certain kinds of content from being posted — such as content that “undermines state policy” or “disseminates rumors [and] disturbs social order.”<sup>78</sup> The new regulations were backed by penalties, including fines, termination of Internet access, and possible imprisonment.

**Religious Freedom.** The PRC 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 focused on what PRC 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 suggested that state persecution of some religious and spiritual groups will continue as long as the Chinese Communist Party (CCP) perceived these groups to be threatening to its political control. However, religions in the PRC during 2005-2006 also attracted increasing numbers of adherents as well.

In the China section of its annual *International Religious Freedom Report*, released November 8, 2005, and September 16, 2006, 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) continued to require churches to register with the government. Churches that were unregistered — so-called “house churches” — continued to be technically illegal and often repressed by the government. As in the past, however, treatment of unregistered churches varied widely from locality to locality, with some local officials highly repressive and others surprisingly tolerant. 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. The U.S. government continued to recognize Tibet as part of China and has always done so,

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<sup>77</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 Xinhuan Wang*, in FBIS, CPP2005926038001.

<sup>78</sup> *Ibid.*, Article 19.

although some dispute the historical consistency of this U.S. position. Controversy continued during the 109<sup>th</sup> Congress over Tibet's 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. Special Coordinator for Tibetan issues — Paula Dobriansky, Under Secretary of State for Global Affairs — is charged with seeking to foster dialogue between the Beijing government and the government-in-exile of the Dalai Lama, Tibetan Buddhism's highest spiritual leader.<sup>79</sup> Although this dialogue remains officially stalled, hopes for renewed momentum were raised by a number of unusual developments since 2002 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 several other 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.<sup>80</sup>

The fifth and latest round of these interactions occurred in early 2006 in Beijing, where the Dalai Lama's special envoy and a delegation from the Tibetan community-in-exile arrived on February 15, 2006. In the latter negotiation, as in past such 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>81</sup>

**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. Although 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, 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 continued to face criticism in 2005-2006 over the cases of approximately 22 Uighur Muslims 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 concerns about the planned release of Uighur prisoners that U.S. forces had decided were of "no intelligence value." These prisoners, they feared, would be

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<sup>79</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>80</sup> Lodi Gyari gave a news conference about these talks at the National Press Club in Washington, DC, on November 2, 2005.

<sup>81</sup> Statement by Special Envoy Lodi Gyari, released on February 25, 2006.

executed or imprisoned as terrorists if sent back to China.<sup>82</sup> In October 2004, 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>83</sup> Later press reports said that a number of U.S. allies had refused requests to accept the prisoners.<sup>84</sup>

Some of the Guantanamo prisoners, including two Uighurs (Chinese Muslims) determined by the U.S. government in 2005 to not be “military combatants,” began pursuing legal action against the United States in an effort to be released.<sup>85</sup> On May 5, 2006, the U.S. State Department issued a statement saying that five of the Uighur men had been released for resettlement in Albania.<sup>86</sup> On December 4, 2006, seven other Uighur prisoners filed suit in U.S. federal court challenging their status as “enemy combatants” and arguing that they also should be released.<sup>87</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 has long been prohibited in provisions of several U.S. laws. In addition, subsequent legislation 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.<sup>88</sup>

While the PRC maintained its restrictive and at times coercive “one-child” program for several decades, there were growing indications during the 109th Congress 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

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<sup>82</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>83</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>84</sup> Sevastopulo, Demetri, “U.S. Fails to Find Countries to Take Uighurs,” *Financial Times*, October 28, 2004, p. 5.

<sup>85</sup> “Two Uighurs held at Guantanamo appeal for high court help,” *Agence France Presse*, January 17, 2006.

<sup>86</sup> McCormack, Sean, “Release of Five Ethnic Uighurs from Guantanamo,” May 5, 2006 press statement, [<http://www.state.gov/r/pa/prs/ps/2006/65935.htm>].

<sup>87</sup> “Holding Uighur Muslims at Guantanamo just a bow to China: defence lawyers,” *The Canadian Press*, December 6, 2006.

<sup>88</sup> 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.

government intended to modify criminal law to make it illegal to selectively identify and abort female fetuses.<sup>89</sup> There also is evidence that some citizens of the PRC are becoming more assertive about their reproductive rights.<sup>90</sup> Still, on December 1, 2006, a PRC court upheld the sentence of Chen Guangcheng, a blind PRC activist arrested four years earlier for having exposed abuses in local officials' enforcement of the PRC's "one child" policy.<sup>91</sup>

**Social Stability.** The far-reaching economic changes the PRC continued to undergo led to increasing disgruntlement among a number of social groups in 2005-2006. Peasants and farmers in rapidly developing parts of China were under heavy tax burdens and falling farther behind their urban contemporaries in income. Some had their farmland confiscated by local government and Party officials, who then sold the confiscated land for development, often reportedly offering little or no compensation to the peasants from whom the land was seized. 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. An unknown number of villagers were killed.

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, remained another particularly troubling issue for Beijing, a regime founded on communist-inspired notions of a workers' paradise. Increasing labor unrest 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>92</sup>

## Hong Kong Governance

On June 21, 2005, following his selection to the post by the 800-member Hong Kong Election Committee, Donald Tsang was formally appointed Chief Executive of Hong Kong by the PRC State Council. He replaced Hong Kong's unpopular former Chief Executive, Tung Chee-hwa, who submitted his resignation on March 10, 2005, two years before his term was to expire. Controversy under Mr. Tung's tenure grew steadily after late summer 2003, when massive peaceful demonstrations, involving tens of thousands of Hong Kongers began to be held in opposition to

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<sup>89</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 at birth, according to a United Nations estimate. "Analysts View Problems with Huge PRC Gender Gap," *South China Morning Post*, January 7, 2005.

<sup>90</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>91</sup> Fan, Maureen, "Chinese activist's sentence is reaffirmed," *The Washington Post*, December 1, 2006, p. A20.

<sup>92</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.

“anti-sedition” laws proposed by Mr. Tung and in favor of more rapid progress toward democratization. Beijing dealt these democratic aspirations a stinging setback in April 2004 by ruling that universal suffrage not only was not to be allowed as early as 2007 (when Hong Kong’s constitution, the Basic Law, implies it is possible), but that Beijing, and not Hong Kong, would determine the proper pace for democratic reforms. Critics maintained that the Beijing decisions contravened provisions in the Basic Law leaving decisions on democratic development up to the Hong Kong people.

While a pragmatist who is far more popular than his predecessor, Chief Executive Tsang also has been criticized by democracy activists. As Hong Kong’s Chief Secretary, Mr. Tsang had chaired a Tung-appointed task force charged with consulting Beijing to devise a plan for democratic reforms in Hong Kong in 2007 and 2008. The task force’s final recommendations, submitted in October 2005, provided for only marginal changes to electoral procedures in 2007 and 2008, stopping far short of expanding the franchise in Hong Kong in this decade or for the foreseeable future. The public response to the recommendations was one of disappointment. On December 4, 2005, opponents of the recommendations held another large public protest in Hong Kong in favor of greater political change. Executive Tsang defended the recommendations as being the most Hong Kong can achieve at the moment given Beijing’s objections to more rapid democratization. Democracy activists in the Legislative Council defeated the minimal reform package on December 21, 2005, leaving the status quo in place and the prescription for future changes uncertain.

U.S. policy toward Hong Kong 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>93</sup>

## **Major Legislation<sup>94</sup>**

### **P.L. 109-102 (H.R. 3057 — Kolbe)**

Appropriations for Foreign Operations, Export Financing, and related programs for FY2006. Section 560(c) prohibited funds from being made available to the U.N. Population Fund (UNFPA) for a country program in China; Section 575(b) provided \$4 million in ESF funds to NGOs to promote cultural traditions, sustainable

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<sup>93</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.

<sup>94</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.

development, and environmental conservation in Tibet; Section 589 prohibited the Export-Import Bank from using federal funds to approve an application for a nuclear project in China. Introduced in House June 24, 2005 (H.Rept. 109-152). House passed the bill, amended, by a vote of 393-32 on June 28, 2005. Referred to the Senate Committee on Appropriations on June 29, 2005 and ordered reported, amended, on June 30, 2005 (S.Rept. 109-96). Passed the Senate with an amendment on July 20, 2005 (98-1). The Senate named conferees on July 20, 2005; the House on October 27, 2005. Conference Report, H.Rept. 109-265, was filed on November 2, 2005. The conference report included the UNFPA funding prohibition, \$4 million in ESF funding to NGOs for Tibet programs (along with \$250,000 to the National Endowment for Democracy for democracy programs relating to Tibet); and a Senate provision to provide \$5 million in Development Assistance to American educational institutions for activities and programs in the PRC relating to rule of law, the environment, and democracy. The House agreed to the Conference Report on November 4, 2005 (358-39); the Senate on November 10, 2005 (91-0). The bill was signed by the President on November 14, 2005.

**P.L. 109-115 (H.R. 3058 — Knollenberg)**

Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, FY2006. Section 951 of the bill (the Kilpatrick amendment) prohibited the Department of the Treasury from using funds to recommend approval of the sale of Unocal to the PRC's CNOOC Ltd. This language later was deleted by the Senate and was not included in the final Conference Report language (H.Rept. 109-307) — which passed the House on November 18, 2005 (392-31) and the Senate on November 21, 2005 (unanimous consent). The President signed the bill into law on November 30, 2005.

**P.L. 109-163 (H.R. 1815 — Hunter)**

Authorizing appropriations for the Department of Defense for FY2006. Introduced April 26, 2005. H.Rept. 109-89. The final Act was the result of a conference. Sec. 535 provides incentives to cadets and midshipmen to study key languages, including Chinese; Sec. 1211 prohibits the Secretary of Defense from procuring any goods or services from a “Communist Chinese military company,” except on a waiver for national security reasons; Sec. 1234 states the sense of Congress that the White House should “quickly” present to Congress a comprehensive strategy to deal with China’s economic, diplomatic, and military rise, including specific mention of what areas such a strategy should address. In conference, the House receded on several key measures in its bill: on a measure to mandate “at least” one class field study trip annually to both Taiwan and the People’s Republic of China (PRC) by military education classes of the National Defense University; on a measure to require regular senior U.S. military exchanges with Taiwan military officials; and on a measure to prohibit the Secretary of Defense from procuring goods or services from any foreign person who knowingly sells to the PRC items on the U.S. munitions list. **House action:** After Committee and Subcommittee mark-ups, reported (amended) by the House Armed Services Committee on May 20, 2005. Referred to the House on May 25, 2005, and passed by a vote of 390-39. Referred to the Senate Armed Services Committee on June 6, 2005. **Senate action:** On November 15, 2005, the Committee was discharged, the Senate considered the bill under unanimous consent, and the Senate passed the bill after incorporating the language of S. 1042. **Conference action:** Conferees filed a conference report on

December 12, 2005 (H.Rept. 109-360), and the House passed it on December 19, 2005 (374-41). The Senate agreed to the Report by voice vote on December 21, 2005, and the President signed the bill into law on January 1, 2006, with a clarifying statement ([<http://www.whitehouse.gov/news/releases/2006/01/20060106-12.html>]).

**P.L. 109-364 (H.R. 5122 — Hunter)**

The John Warner National Defense Authorization Act for FY2007. Several provisions of the House-passed bill (introduced on April 6, 2006) replicated the provisions of H.R. 1815 (P.L. 109-163) that the House later receded from in conference. These were: requirements that the National Defense University (NDU) include visits to both the PRC and Taiwan as part of the course of military study; that senior military officer and official exchanges be held with Taiwan, and that the United States not procure goods or services from any foreign entity who knowingly sells to the PRC items on the U.S. munitions list. Section 1221 of the House bill requires the United States to submit to Taiwan plans for design and construction for diesel electric submarines, subject to the provisions of the Arms Export Control Act (22 U.S.C. 2751 et seq.) and any other export control law of the United States. The Senate bill (S. 2766) contained no such provisions. The House Armed Services Committee reported its version (60-1) on May 5, 2006 (H.Rept. 109-452), and the House passed the bill, amended on May 11, 2006 (396-31). On June 22, 2006, the Senate struck all after the enacting clause and substituted S. 2766, passing that measure by unanimous consent. A conference was held on September 12, 2006, and a conference report (H.Rept. 109-702) filed on September 29, 2006. The House receded from its China-related provisions in the bill in favor of the Senate version, agreeing to the Conference Report the same day by a vote of 398-23. The Senate agreed to the Conference Report by unanimous consent on September 30, 2006. The President signed the bill into law on October 17, 2006, as P.L. 109-364.

**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, to the Subcommittee on Trade (February 25, 2005).

**H.R. 1498 (Ryan)**

Chinese Currency Act of 2005. To clarify that PRC currency manipulation is actionable under U.S. countervailing duty laws and product-specific safeguards. Introduced on April 21, 2005, and referred to House Ways and Means Committee and House Armed Services Committee. Executive comment was requested from DOD on April 21, 2005.

**H.R. 2601 (C. Smith)**

The State Department Authorization bill. Title IX consists of the East Asia Security Act of 2005, a bill to impose trade sanctions on persons, companies, and governments (specifically the European Union, but also Israel and Russia) that sell weapons to China in violation of agreed-upon export restrictions. The bill also contains annual reporting requirements on EU weapons sales to China and on foreign governments participating in cooperative defense projects with the United States. The East Asian Security Act originally was H.R. 3100, introduced by Representatives Hyde and Lantos on June 29, 2005 (H.Rept. 109-165). After mark-up by the House

International Relations Committee on June 30, 2005, H.R. 3100 was considered by the House on July 14, 2005, on the suspension calendar. It failed to achieve the necessary 2/3 vote by a vote of 215-203, reportedly because of some Member's concerns that it would be unfairly punitive on U.S. defense contractors. Responding to these objections, the bill's sponsors amended the bill to apply sanctions on U.S. companies only if they knowingly sold items to China for military use. The amended version was then made in order as an amendment to H.R. 2601, which the House then passed on July 20, 2005, by a vote of 351-78. The bill was referred to the Senate on July 22, 2005.

#### **H.R. 3100 (Hyde)**

East Asia Security Act of 2005. See H.R. 2601.

#### **H.R. 3283 (English)**

Introduced on July 14, 2005, and referred to the House Ways and Means Committee. The bill seeks to place further trade restrictions on non-market economies and particularly to further restrict and more heavily monitor various aspects of China's trade with the United States. The House passed H.R. 3283 on July 27, 2005 (255-168), including a countervailing duties provision (in Section 3) with respect to China. The bill was referred to the Senate on July 28, 2005, to the Committee on Finance.

#### **H.R. 5522 (Kolbe)**

Foreign Operations, Export Financing, and Related Appropriations Act, 2007. Introduced on June 5, 2006, and referred to the House and Senate Appropriations Committees. The House reported an original measure the same day (H.Rept. 109-486), and the House debated the measure on June 8 and 9, 2006, passing the measure on June 9 (373-34). The Senate reported the measure with an amendment in the nature of a substitute on July 10, 2006 (S.Rept. 109-277). As reported in the House, Section 559 of the bill prohibits funds from being made available to UNFPA for family planning programs in China. (This provision was struck from the Senate-reported version.) Section 573 (b) of the bill makes \$4 million in Economic Support Funds available to support activities preserving cultural traditions and promoting sustainable development and environmental conservation in Tibet, and provides not less than \$250,000 for the National Endowment for Democracy for human rights and democracy programs in Tibet. (A similar provision was provided in section 553 (b) in the Senate-reported version.)

The Senate bill contains language providing that assistance should be made available to Taiwan for furthering political and democracy reforms. Section 534 (h) of the Senate-reported version provides \$10 million in development assistance to American educational institutions and NGOs for programs in China relating to democracy, the environment, and rule of law.

#### **H.R. 5672 (Wolf)**

State, Justice, Commerce, and Related Agencies Appropriations bill, 2007. Introduced June 22, 2006, and referred to the House and Senate Appropriations Committees. As passed by the House, the bill provides \$3 million for the Office of China Compliance in the Import Administration of the Commerce Department; and restricts the State Department from licensing the export of U.S. satellites and satellite



components to China without congressional notification 15 days prior. The House also passed an amendment by Representative Tancredo that prohibited funds from being used to enforce the “Guidelines on Relations With Taiwan” — a set of general restrictions on official U.S. contacts with Taiwan officials. The House Appropriations Committee reported an original measure on June 22, 2006 (H.Rept. 109-520); the House passed the final measure, amended, on June 29, 2006 (393-23), and the bill was referred to the Senate. The Senate Appropriations Committee marked up the measure on July 13, 2006 (S.Rept. 109-280).

**H.Con.Res. 83 (Smith)**

Urging the United States to introduce a measure at the 61<sup>st</sup> U.N. Conference on Human Rights calling on China to end its human rights abuses. Introduced March 3, 2005, and referred to the House Committee on International Relations. Mark-up held on March 9, 2005.

**H.Con.Res. 98 (Hyde)**

Expressing the “grave concern” of Congress about China’s passage of an anti-secession law aimed at Taiwan. Introduced March 15, 2005. The measure passed on March 16, 2005, by a vote of 424-4. It was referred to the Senate Foreign Relations Committee on March 17, 2005.

**H.Con.Res. 381 (Chabot)**

Expressing the sense of Congress that all restrictions on high-level visits to the United States by Taiwan officials should be lifted; that direct U.S.-Taiwan exchanges should take place at the Cabinet level; and that U.S. links with Taiwan should be strengthened.

**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.Res. 344 (Pombo)**

A resolution urging the President to immediately review any CNOOC agreement to buy the American energy company Unocal. Introduced June 29, 2005, referred to House International Relations and Financial Services Committees. Considered under suspension on June 30, 2005, passed by a vote of 398-15.

**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.

**S. 1042 (Warner) (see H.R. 1815, above)**

National Defense Authorization Act for FY2006.

Section 2539C of the Senate bill requires the Secretary of Defense to annually report (by September 30) whether a foreign country with a reciprocal defense procurement agreement with the United States has “qualitatively or quantitatively” increased exports of defense items to the People’s Republic of China. The Senate

bill was introduced on May 17, 2005. On May 12, 2005, the Senate Armed Services Committee ordered reported an original measure (S.Rept. 109-69), which was considered by the Senate on July 20, 21, 22, 25, and 26, 2005. (The House-passed bill, H.R. 1815, was referred to the Senate on June 6, 2005.) On July 26, 2005, cloture was not invoked on the Senate measure, (50-48), and the bill was returned to the calendar. The Senate considered the bill for seven days beginning November 4, 2005. It passed the measure (amended) on November 15, 2005 (98-0) and incorporated it into H.R. 1815 as an amendment. H.R. 1815 as amended ultimately was enacted as P.L. 109-115.

**S. 1117 (Lieberman)**

U.S.-PRC Cultural Engagement Act. To expand U.S. academic, cultural, and business activities and increase American expertise in Chinese language and culture. Provides funds to establish Chinese language centers to assist elementary and secondary schools and institutes of higher learning in offering Chinese language instruction; and funds to establish exchange programs between U.S. and PRC post-secondary educational institutions. Introduced May 25, 2005, and referred to the Committee on Foreign Relations.

## Appendix I: Selected Visits by U.S. and PRC Officials

**December 14-15, 2006** — In the first meeting of the U.S.-China Strategic Economic Dialogue (initiated by U.S. Treasury Secretary Henry Paulson on September 20, 2006), six U.S. Cabinet officers and other senior U.S. officials visited China to participate in bilateral discussions to promote increased access for U.S. exports and better U.S.-China trade ties. Participants included U.S. Treasury Secretary Paulson, Secretary of Commerce Carlos M. Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and Federal Reserve Chairman Ben S. Bernanke.

**November 13, 2006** — U.S. Secretary of Commerce Carlos Gutierrez began a visit to Beijing — his fourth as Secretary — to discuss trade issues. During his visit, he pressed PRC officials to do more to combat IPR piracy (at the 5<sup>th</sup> IPR roundtable beginning on 11/14).

**October 17-22, 2006** — Secretary of State Condoleezza Rice visited Beijing, China as part of a trip to Asia that included Tokyo, Japan; Seoul, South Korea; and Moscow, Russia.

**September 19, 2006** — U.S. Treasury Secretary Henry Paulson Jr. arrived in China after the IMF meeting in Singapore. Paulson is also President Bush's special representative in the economic section of the strategic dialogue between the U.S. and China.

**September 5, 2006** — U.S. Assistant Secretary of State Chris Hill arrived in Beijing for a five-day visit to revive the Six Party Talks. Hill's trip included visits to Beijing and to U.S. diplomatic missions in Chengdu, Guangzhou, and Shanghai, and to Seoul, S. Korea

**July 7 and July 11, 2006** — U.S. negotiator Chris Hill made trips to Beijing to discuss North Korea's July 4<sup>th</sup> missile firings.

**May 16, 2006** — The *Wall St. Journal, Asia*, reported that America's top commander in the Pacific, Admiral William Fallon spent a week visiting the 28<sup>th</sup> Air Division in the PRC, including a new twin-engine FB7 fighter.

**April 20, 2006** — PRC President Hu Jintao arrived in Washington for meetings with President Bush and other U.S. government officials. Hu began his U.S. trip by visiting the state of Washington, touring the Boeing and Microsoft plants and having dinner at Bill Gates' house. While speaking on the White House lawn, Hu was heckled by a Falun Gong supporter who had been admitted as a credentialed journalist. A spokesman also referred incorrectly to the PRC as "The Republic of China" (Taiwan).

**April 7, 2006** — EPA Administrator Stephen Johnson left for China, the first Environmental Protection Agency administrator to visit China in seven years.

**March 26, 2006** — U.S. Secretary of Commerce Carlos Gutierrez arrived in China for a five-day visit to discuss trade issues.

**December 7, 2005** — U.S. Deputy Secretary of State Bob Zoellick met in Washington D.C. with PRC Executive Vice Foreign Minister Dai Bingguo in the second session of the U.S.-China Senior Dialogue. At the same time, U.S. Under Secretary of State for Economic, Business, and Agricultural Affairs Josette Shiner also hosted a dialogue with Mr. Zhu Zhixin, Vice Chairman of China's National Development and Reform Commission (NDRC). (See August 1, 2005.)

**November 20, 2005** — President Bush met with President Hu Jintao and Premier Wen Jiabao in Beijing. His visit to China was part of an overall Asia trip that began in Japan and included South Korea and Mongolia. His remarks in China emphasized a U.S. commitment to the spread of democracy and to universal human rights and freedoms.

**October 18, 2005** — Secretary of Defense Donald Rumsfeld made his first official trip to China as Secretary, meeting with President Hu Jintao and PRC Defense Minister Cao Gangchuan. During his two-day trip, Secretary Rumsfeld visited the Second Artillery and addressed rising Communist Party cadres at the Central Party School, urging China to expand political freedoms and be more transparent about China's military.

**October 11, 2005** — Secretary of the Treasury John W. Snow and Chairman of the Federal Reserve Alan Greenspan began a week-long visit to China, among other things discussing China's currency valuation and trade surplus.

**September 13, 2005** — President Bush and President Hu Jintao met in New York while attending a U.N. meeting. The Bush-Hu New York meeting substituted for a Hu visit to Washington that was postponed at the last minute because of U.S. preoccupation with Hurricane Katrina.

**August 1, 2005** — U.S. Deputy Secretary of State Robert Zoellick arrived in Beijing to initiate "a new senior dialogue on global issues" in which Beijing and Washington will take turns as hosts. The session was the first of what is expected to be a regular U.S.-China Senior Dialogue.

**July 8, 2005** — Secretary of State Condoleezza Rice, Secretary of Commerce Carlos Gutierrez, Secretary of Agriculture Mike Johanns, and U.S. Trade Representative Rob Portman left for a visit to the PRC for discussions about North Korea's nuclear program, tougher enforcement of anti-piracy laws for intellectual property, and other issues. The visit includes a meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT).

**June 6, 2005** — Secretary of Commerce Carlos Gutierrez arrived in Beijing for meetings with his counterpart, Chinese Commerce Minister Bo Xilai. Gutierrez urged the PRC to crack down on IPR piracy, calling IPR violations "a crime."

**March 20- 21, 2005** — Secretary of State Condoleezza Rice held talks in Beijing with PRC officials as part of her first visit to Asia as Secretary of State. Her

stops included India, Pakistan, Afghanistan, Japan, and South Korea. Her discussions included North Korea and the Six-Party talks, Taiwan, human rights, and plans to hold a regular U.S.-China senior dialogue.

**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.

## Appendix II: Chronology of Developments, 2005-2006

### Developments in 2006

- 12/07/06** — Sino-U.S. defense-policy coordination talks began in Washington.
- 11/19/06** — The U.S. and PRC navies conducted joint search and rescue exercises in the South China Sea. The exercises ostensibly were to increase transparency and enhance military contacts.
- 11/16/06** — The U.S. China Economic and Security Review Commission released its 2006 annual report, including 44 recommendations for U.S. policymakers. Among the top ten: enhance China's compliance with WTO obligations, greater dialogue and congressional scrutiny on security issues, and greater U.S. pressure for PRC help on North Korea.
- 11/16/06** — The PRC said it would consider setting up a business association at the national level for Taiwan businessmen operating in the mainland.
- 11/16/06** — A PRC Foreign Ministry spokesperson, Ms. Jiang Yu, denied reports that a Chinese sub had followed and surfaced near a group of U.S. warships.
- 11/14/06** — Admiral Fallon, Commander of U.S. forces in the Pacific, confirmed a Chinese sub had surfaced undetected 5 miles from the U.S. S. Kitty Hawk CVB. He also called for more U.S. military cooperation with China to enhance bilateral understandings and avoid misunderstandings.
- 11/03/06** — Prosecutors in Taiwan indicted Wu Shu-jen, wife of President Chen Shui-bian, and 3 close aides on charges of embezzlement, forgery, and perjury. The President himself was described as a "perpetrator," with the implication that he would be indicted when he left office.
- 10/26/06** — A PRC Foreign Ministry spokesman, Liu Jianchao, responded on October 26, 2006 to Secretary Rice's previous day's remarks by calling on the United States to work with the PRC to oppose Taiwan independence. On October 25, Secretary Rice said that U.S. policy on Taiwan is an inseparable "package" that includes the "one-China policy" and a U.S. commitment to help Taiwan defense itself.
- 10/24/06** — According to the *WStJ Asia*, Exxon Mobil Corp. reached a preliminary agreement to sell China natural gas from a project on Russia's Sakhalin Island.
- 10/24/06** — Taiwan's opposition-controlled legislature again blocked a military weapons procurement budget.
- 10/09/06** — The PRC Foreign Ministry issued a statement on North Korea's nuclear test, saying Pyongyang "disregarded the international community's universal

opposition and flagrantly conducted a nuclear test,” and expressing the PRC’s “resolute opposition” to the test.

- 10/08/06** — Japanese Prime Minister Shinzo Abe made his first official visit as Prime Minister to China instead of to the United States. It was the first visit of a Japanese PM to China in five years.
- 10/03/06** — A Taiwan defense official said that the United States had temporarily blocked the sale of 66 F-16C/D fighters pending resolution of the defense budget impasse in Taiwan’s legislature.
- 09/11/06** — According to the *WStJ Asia*, China appointed a new ambassador to North Korea — Liu Xiaoming, a career diplomat with extensive knowledge of the U.S.
- 09/11/06** — The IMF warned that China needed to tighten monetary policy to prevent the economy from over-heating or going into a boom-bust cycle.
- 09/10/06** — *Xinhua* issued regulations prohibiting foreign financial news media from soliciting subscribers in China and requiring them to channel their business through *Xinhua* agents. Western commentators speculated that the move was an effort to siphon off profits from *Reuters* and other providers of financial information.
- 09/07/06** — The *WStJ* (Asia) reported that the Chinese government announced it plans a nationwide audit of locally managed pension funds, after an ongoing corruption probe in Shanghai.
- 09/05/06** — Premier Wen Jiabao announced China needs more time to bring its anti-piracy standards to international levels.
- 09/05/06** — U.S. Assistant Secretary of State Chris Hill arrived in Beijing for a five-day visit to revive the Six Party Talks. Hill’s trip included visits to Beijing and to U.S. diplomatic missions in Chengdu, Guangzhou, and Shanghai, and to Seoul, S. Korea.
- 09/05/06** — In an undated essay by PRC Vice President Zeng Qinghong, Zeng disclosed that China’s forex reserves totaled \$954.5 billion at the end of July 2006.
- 09/04/06** — Egypt’s Minister of Trade and Industry, Rachid Mohamed Rachid, began a week-long visit to China to increase bilateral trade and encourage Chinese investment in Egypt.
- 09/03/06** — *NYT* researcher Zhao Yan decided to appeal his three-year conviction for fraud.
- 07/12/06** — China replaced two top officials in the National Development and Reform Commission, the country’s top energy policy body. Beijing reportedly is considering a World Bank recommendation that it reconstitute the Ministry of Energy, dissolved in 1993, to better coordinate its energy policy.

- 07/11/06** — Chinese officials criticized as an “overreaction” a tough U.S.-backed U.N. resolution on North Korea’s missile tests. President Hu Jintao also criticized North Korea, telling the visiting North Korean vice-president of the parliament, “we are against any actions that will aggravate the situation.”
- 06/21/06** — News accounts said China and South Africa would sign an agreement to co-operate on peaceful nuclear energy technology during Premier Wen Jiabao’s visit.
- 06/19/06** — Bob Zoellick, Deputy Secretary of State, announced he would be leaving government to work for Goldman Sachs as managing director and vice-chairman, international.
- 06/17/06** — Premier Wen Jiabao left for a 7-nation tour of Africa, including Egypt, Ghana, Congo Republic, Angola, South Africa, Tanzania, and Uganda. Wen’s is the third Africa trip this year by senior Chinese officials.
- 06/16/06** — China Great Wall Industry Corp. announced it strongly opposed the U.S. decision to freeze its U.S. assets on the allegation it had aided Iran’s missile program.
- 06/16/06** — A 10-member high-level Chinese military delegation left to observe large-scale U.S. naval exercises in the Pacific Ocean off Guam.
- 06/16/06** — Taiwan and Nicaragua signed a Free Trade Agreement in Taipei.
- 06/15/06** — The director of China’s Animal Husbandry and Veterinary Bureau (Ministry of Agriculture), Jia Youling, warned that avian flu was on the rise among migratory birds in China.
- 06/15/06** — According to the London *Financial Times*, state-run Chinese media challenged PRC officials to be more forthcoming in explaining the firing (for corruption) of the official responsible for Olympics construction in Beijing. Greater transparency is needed, the media said, to retain public confidence in the government.
- 06/14/06** — China signed an agreement with Brazil to offer \$1.1 billion in energy-related investment in Brazil.
- 06/14/06** — China’s Ministry of Agriculture announced that China’s National Avian Influenza Reference Lab had developed 3 new avian flu vaccines.”
- 06/14/06** — Taiwan and China announced simultaneously that they had reached agreement to allow direct round-trip charter passenger flights between China and Taiwan, shared evenly between mainland and Taiwan airlines, during 4 major public holidays.
- 06/13/06** — The U.S. Treasury Department announced it was placing sanctions on and freezing the U.S. assets of 4 Chinese state-owned companies for aiding Iran’s ballistic missile program. The four are: Beijing Alite Technologies Co.,



LIMMT Economic & Trade Co., China National Precision Machinery Import/Export Corp., and China Great Wall Industry Corp. The agency also said it was blacklisting the California-based U.S. subsidiary of the latter company, G.W. Aerospace.

- 06/12/06** — Pakistani President Pervez Musharraf arrived in Beijing to attend as an observer the SCO summit meeting scheduled for June 15 in Shanghai. The Presidents of Mongolia and Iran and the petroleum and gas minister from India also observed the summit.
- 06/12/06** — The head of the Beijing commission (Liu Zhihua) responsible for construction projects for the 2008 Olympics was charged with corruption and fired.
- 06/11/06** — Amnesty International issued a report calling China one of the world's most irresponsible arms exporters.
- 06/09/06** — The United States announced it would revise U.S. "China Export Control Policy" to facilitate export of high-tech equipment to China.
- 06/09/06** — The U.S. and Chinese Olympics Committees signed an agreement of cooperation to share information about training, research, and anti-doping matters.
- 06/08/06** — It was announced that the PLA would send observers later in June to the "Valiant Shield 2006," U.S.-led military exercises near Guam.
- 06/06/06** — Japanese Chief Cabinet Secretary Shinzo Abe said that Japan would soon be lifting a freeze on a 74 billion yen (\$550 million) yen loan to China focusing on environmental issues.
- 06/06/06** — North Korea's Foreign Minister, Paek Nam Sun, left after an eight-day visit to China, at the conclusion of which it was announced that both countries had agreed to jointly explore for oil in the Yellow Sea.
- 06/03/06** — In remarks he made at an annual meeting of senior Asia-Pacific defense officials in Singapore, Secretary of Defense Donald Rumsfeld called for Beijing to be more transparent about its military.
- 05/19/06** — *Reuters* reported that senator Richard Lugar, SFRC Chairman, was drafting legislation to animate the Six-Party Talks by specifying a time line and series of mutual concessions, including what the U.S. would offer North Korea.
- 05/19/06** — 19 U.S. army generals ended a two-day visit to Tibet and left for Beijing. The group was headed by retired Gen. Morgan Thomas, senior advisor to U.S. National Defense University.
- 05/16/06** — The *Wall St. Journal, Asia*, reported that CinCPac Admiral William Fallon spent a week visiting the 28<sup>th</sup> Air Division in the PRC, including a new twin-engine FB7 fighter. During the visit, Adm. Fallon invited senior Chinese officers to observe the U.S.-led military exercises near Guam in June 2006.

- 05/10/06** — In its semiannual report on International Economic and Exchange Rate Policies, the U.S. did not designate China as a “currency manipulator.”
- 04/20/06** — PRC President Hu Jintao arrived in Washington D.C. for meetings with President Bush and other U.S. government officials. Hu began his U.S. trip by visiting the state of Washington, touring the Boeing and Microsoft plants. While speaking on the White House lawn, Hu was heckled by a Falun Gong supporter who had been admitted as a credentialed journalist. A U.S. spokesman also referred incorrectly to the PRC as “The Republic of China.”
- 04/10/06** — A chemical spill from two paper mills engulfed and destroyed the tiny village of Sugai.
- 04/07/06** — EPA Administrator Stephen Johnson left for China, the first EPA official to visit China in seven years.
- 03/24/06** — The *Wall St. Journal, Asia*, reported that Julie Hall, WHO’s top expert in Beijing, criticized China’s transparency in only reporting to WHO confirmed cases of avian flu in humans.
- 03/23/06** — Senator Schumer, in China with Senator Graham to discuss trade issues and their 27.5% tariff bill, said he was “more optimistic than we were when we came here” about the PRC’s currency policy.
- 03/22/06** — The *Associated Press* reported that WHO official Julie Hall announced that China had agreed to share 20 avian flu samples with WHO offices in the next few weeks, after WHO had negotiated an agreement working out “intellectual property rights and such issues as commercial rights.” China shared no flu samples in 2005.
- 03/22/06** — Taipei Mayor Ma Ying-jeou arrived in DC for a series of meetings, unveiling his “five ‘do’s’” (or “five yeses”) proposal. During his trip, Ma reportedly also met with Dep. Sec. State Bob Zoellick; Asst. Sec. East Asia Chris Hill; deputy national security advisor Jack Crouch; and NSC China specialist Dennis Wilder.
- 03/22/06** — The Taiwan government announced a new regulatory framework of approval, on a case-by-case basis, for large investments involving “sensitive technology” in China.
- 03/17/06** — Ma Ying-jeou said the KMT had reached consensus on a “reasonable purchase” of U.S. arms, but did not pass the package in the wake of Chen’s NUC decision because it did not want to appear to endorse the decision.
- 03/02/06** — State Department spokesman Adam Ereli issued a written statement saying that the United States expected the Taiwan authorities to unambiguously and publicly clarify that the NUC had been abolished, the status quo maintained, and that the Chen Shui-bian assurances were still in force.

- 02/27/06** — President Chen Shui-bian announced officially that the NUC and GNR had “ceased to function.”
- 02/07/06** — The Department of Energy (DOE) issued a report (requested by Congress) concluding that China’s search for oil resources did not damage U.S. security.
- 02/03/06** — The Pentagon’s 2006 Quadrennial Defense Review (QDR) dubbed China as the country with “the greatest potential to compete militarily” with the United States. China issued a formal protest.
- 01/31/06** — In a New Year’s Day speech, Taiwan president Chen Shui-bian proposed scrapping the National Unification Council and unification guidelines and seek U.N. membership under the name “Taiwan.”
- 01/25/06** — The *Financial Times (USA)* reported that Google had agreed to launch a China-based version of its Internet search service and to have portions censored by Chinese authorities. The same day, Representative Chris Smith announced his subcommittee on Human Rights would hold hearings on February 16, 2006, to examine U.S. internet companies’ operating procedures.
- 01/25/06** — Deputy USTR Karan Bhatia warned China it had to start operating as a “fully accountable” member of the global trading system to protect U.S.-China trade relations.
- 01/22/06** — Saudi Arabia King Abdullah began a three-day visit to China, his first overseas visit since becoming king and the first by a Saudi king to China since 1990. On 1/23/06, both sides signed five agreements, including one on future energy cooperation.
- 01/18/06** — North Korean leader Kim Jong-Il reportedly headed back to North Korea after an eight-day trip to China.
- 01/17/06** — A two-day international avian flu funding conference began in Beijing, co-hosted by China, the World Bank, and the European Commission. A total of \$1.9 billion was pledged by international participants, with the money to go toward developing countries’ fights against avian flu.
- 01/17/06** — Lawyers for Uighur detainees in Guantanamo Bay announced they were taking the case to the U.S. Supreme Court, saying the prisoners are being illegally detained.
- 01/14/06** — According to the *New York Times*, villagers in Panlong village in Guangdong Province were attacked by police officers on their sixth day of protests against government land seizures.
- 01/12/06** — China and India signed an agreement to cooperate on securing oil resources overseas.

- 01/08/06** — China's State Council issued a national emergency response plan, dividing emergencies into four categories: natural disasters; accidents; public health incidents; and social safety incidents.
- 01/08/06** — Bolivia's president-elect Evo Morales arrived in Beijing for a two-day visit. During his visit, he invited China to develop Bolivia's huge natural gas reserves.
- 01/04/06** — Yang Bin, Chief Editor of the popular and aggressively news-oriented tabloid *Beijing News*, was removed from his job by the Communist Party's propaganda department. The paper had broken the news about the Dongzhou crackdown in which police forces fired on and killed protesting farmers.

## Developments in 2005

- 12/30/05** — WHO officials announced that China still had not shared with international health officials virus samples for testing from avian flu outbreaks in bird populations.
- 12/27/05** — *Xinhua* reported that Chinese scientists claim to have "completed clinical experiments" on a new anti-viral drug more effective and cheaper than Tamiflu.
- 12/22/06** — General Zhu Chenghu, a dean of China's NDU, reportedly received an "administrative demerit" for comments in July 2005 that China would have to use nuclear weapons against the United States if Washington intervened on Taiwan's behalf in a conflict.
- 12/14/05** — The day of the first East Asia Summit (EAS) of 16 Asian countries, including the ten ASEAN countries, China, Japan, South Korea, India, Australia, and New Zealand — but not the United States. Russia, in the form of President Putin, attended as an invited observer.
- 12/13/05** — The WTO Ministerial in Hong Kong began.
- 12/11/05** — Australia signed the Treaty of Amity and Cooperation in Southeast Asia — a prerequisite for attending the new East Asian Summit. The Treaty stipulates signatories will not interfere in each others' internal affairs.
- 12/06/05** — Security officials opened fire on protesters in the town of Dongzhou, in Guangdong Province. According to reports, as many as 20 were killed; the protesters were objecting to plans to build a new power plant on confiscated farmland.
- 12/02/05** — The State Council adopted a "Decision on Perfecting the Basic Old-Age Insurance System for Enterprise Employees," — the first decision since a 1997 State Council decision on pension reform.

- 11/27/05** — An explosion occurred at the Dongfeng coal mine in Heilongjiang Province, killing at least 68. Water was also restored to residents of Harbin after the Songhua spill.
- 11/25/05** — The PRC announced that six mainland airlines would run special Lunar New Year cross-strait charter flights: Air China, China East Airlines, China Southern Airlines, Shanghai Airlines, Hainan Airlines, and Xiamen Airlines.
- 11/23/05** — Beijing admitted that a “major water pollution incident” had occurred in Heilongjiang Province on the Songhua River. The government promised to investigate the spill and punish responsible officials.
- 11/18/05** — Taiwan and the PRC reached agreement to offer cross-strait flights for the Lunar New Year from January 20 — February 13, 2006.
- 11/13/05** — An explosion at a Jilin chemical plant owned by PetroChina, China’s largest oil company, sent a 50-mile slick of benzene and other toxic chemicals down the Songhua River, the main source of water for Harbin and other cities downstream, including in Russia.
- 10/27/05** — On behalf of China, a small surveillance satellite, the Beijing-1, was launched on a Russian rocket from Plesetsk Cosmodrome. The satellite was developed with the help of Surrey Satellite Technology Limited, a British company.
- 10/26/05** — The United States notified Congress that it had approved for sale to Taiwan 10 AIM-9M Sidewinder missiles and 5 AIM-7M Sparrow missiles, worth as much as \$280 million, both systems manufactured by Raytheon.
- 10/26/05** — Hong Kong Chief Executive Donald Tsang arrived for a three-day visit in the United States.
- 10/26/05** — A court in Canada approved China National Petroleum Corporation’s \$4.2 billion offer to buy Canadian company PetroKazakhstan.
- 10/26/05** — The United States (backed by Japan and Switzerland) asked the WTO to force China to reveal details about how it is using legal and regulatory procedures to crack down on piracy of intellectual property, including case-by-case remedies and penalties, responsible authorities, and other data.
- 09/27/05** — The NPC Standing Committee held its first-ever public hearing — on the subject of the starting point for taxable income.
- 09/25/05** — Thousands of Taiwan citizens marched through Taipei in protest to the legislature’s delay in passing the “special arms budget” to purchase American weapons.
- 09/20/05** — Edward Ross, a senior Pentagon official, said it was reasonable to question whether the United States should continue to provide for Taiwan’s self-defense “if Taiwan is not willing to properly invest in its own self-defense.”

- 09/12/05** — The PRC's National Administration of State Secrets announced it would no longer consider death tolls from natural disasters to be state secrets, and it would begin to declassify past such statistics.
- 09/08/05** — According to a report in *Bloomberg* cited by TSR, the PRC's China Development Bank agreed to offer 30 billion yuan (\$3.7 billion) in loans to Taiwan companies wanting to invest in China.
- 09/07/05** — Ma Ying-jeou (KMT) and James Soong (PFP), Taiwan's two main opposition party leaders, announced they would jointly oppose the \$NT340 special defense budget to buy U.S. weapons.
- 09/03/05** — President George Bush and President Hu Jintao agreed in a phone conversation to postpone the Chinese leader's U.S. visit, ostensibly because of the Hurricane Katrina emergency.
- 09/01/05** — The U.S. re-imposed limits on imports of Chinese-made synthetic fabrics, bras, and other undergarments.
- 08/29/05** — China and the United States met in Beijing for a second round of talks over Chinese textile exports.
- 08/28/05** — *The Taipei Times* reported that regular high-level U.S.-Taiwan military talks — called the "Monterey Talks" for their California location — would be postponed this year from their scheduled dates of September 13 & 14 until later in September.
- 08/24/05** — Taiwan withdrew from legislative consideration a special budget for purchasing U.S. weapons. Reportedly, the special budget is being slashed from \$480 NT to around \$370 million in order to garner more support from opposition lawmakers.
- 08/24/05** — China announced that tuition for Taiwan students at PRC universities will be slashed by more than half, to the same rates as mainland students pay.
- 08/22/05** — In an interview with *The New York Times*, Secretary of State Rice said, "We want a strong and confident China. I actually think a weak China is potentially much more dangerous."
- 08/18/05** — China and Russia began an eight-day joint military exercise in Vladivostok and off the Shandong Peninsula — their largest joint military exercise in modern history.
- 08/16/05** — KMT Chairman Lien Chan announced the formal start of grass-roots exchanges between the KMT and the CCP.
- 08/15/05** — The inaugural ceremony in Taiwan for the "Democratic Pacific Union," a quasi-governmental body comprised of political and civil leaders from 26 countries, including: the United States including , Canada, Australia, New Zealand, Mexico, Honduras, Guatemala, El Salvador, Costa Rica, Nicaragua,

Panama, Peru, Chile, Russia, Japan, South Korea, the Philippines, Malaysia, Indonesia, East Timor, Marshall Islands, Solomon Islands, Tuvalu, Kiribati, Palau, and Taiwan. Taiwan was the prime mover behind the group's formation, and Taiwan Vice President Annette Lu was elected as the body's first chairman.

- 08/12/06** — An *Agence France Presse* report said Taiwan has begun deploying indigenous cruise missiles around the island on mobile launchers. The report was denounced by the Ministry of National Defense.
- 08/10/05** — *The Asian Wall St. Journal* reported that the FBI and the Justice Department since 911 have established a broad new program of counterintelligence against possible PRC economic and industrial espionage in the United States.
- 08/10/05** — The Bank of China revealed that China's new "managed float" of its currency is tied to a basket of currencies consisting of: the U.S. dollar, Euro, yen, won (with the biggest weights), and the currencies of Singapore, Britain, Malaysia, Russia, Australia, Thailand, and Canada.
- 08/10/05** — 72% of UNOCAL's shareholders voted to accept Chevron's \$17.06 billion bid for the company.
- 08/09/05** — *The New York Times* reported that four Chinese airlines had signed contracts with Chicago-based Boeing to purchase 42 Boeing 787 jets, at a cost of approximately \$5.4 billion.
- 08/05/05** — China formally leveled espionage charges against Ching Cheong, the well-known, Hong Kong-based chief China correspondent of Singapore's *Straits Times* newspaper. Ching, charged with spying for Taiwan, is the first Hong Kong journalist to be so accused by China.
- 08/02/05** — CNOOC dropped its \$18 billion bid for Unocal, expressing frustration with what it called U.S. political interference with the business deal.
- 08/02/05** — Japan released its annual defense white paper, part of which urged China to opt for greater transparency in its defense build-up.
- 08/01/05** — USTR Robert Zoellick arrived in Beijing to initiate "a new senior dialogue on global issues" in which Beijing and Washington will take turns as hosts.
- 07/26/05** — The fourth round of Six Party Talks started in Beijing.
- 07/11/05** — China's Securities Regulatory Commission published guidelines (in the *China Securities Journal* on July 13) requiring listed Chinese companies to increase transparency by informing investors of their growth strategies, business plans, and major events in the company.
- 07/04/05** — Responding to congressional action on the Unocal bid, the PRC Foreign Ministry issued a strongly worded statement saying "We demand that the U.S. Congress correct its mistaken ways of politicizing economic and trade issues

and stop interfering in the normal commercial exchanges between enterprises of the two countries.”

- 07/01/05** — The Chinese National Offshore Oil Company (CNOOC) asked the U.S. Committee on Foreign Investment in the United States (CFIUS) to begin a national security review of its \$18.5 bid for UNOCAL. CFIUS is composed of the Secretaries of the Treasury, Defense, State, Homeland Security, and Commerce, plus the Attorney General and the Director of OMB.
- 06/20/05** — After a three-week delay, international health officials received PRC permission to visit the site of a bird-flu outbreak in Qinghai Province.
- 06/19/05** — Israel formally apologized to the United States for its sale of Harpy attack drones and other advanced technology to China. Reports indicate that Israel is negotiating an agreement to allow U.S. supervision of future Israeli arms sales to problematic countries.
- 06/18/05** — *The Washington Post* reported that Chinese farmers had been using one of two existing anti-influenza drugs (amantadine, meant for humans) to inoculate poultry against the H5N1 bird flu virus, rendering the drug ineffective against the virus strain in humans.
- 06/16/05** — U.S. and PRC trade officials negotiated via video link to reach a compromise on Chinese textile imports. Also, according to *Yomiuri Shimbun*, China test-fired a new long-range SLBM, believed to be the Ju Lang-2, a modified version of the Dong Feng-31.
- 06/14/05** — The Congressional China Caucus was formally launched at a news conference.
- 06/13/05** — The *Washington Post* reported that a peasant revolt had occurred in Huawi township on April 10, 2005, near Hangzhou. Farmers and peasants who were protesting the building of an industrial park on their land beat back a police effort to halt their efforts.
- 06/11/05** — In China, a group of farmers who had been resisting surrendering their land to officials for a power plant project were attacked by armed men. Six were killed and as many as 100 injured.
- 06/05/05** — AFP reported that in recent months (perhaps March), Taiwan had successfully test-fired its first “Hsiung-Feng” cruise missile, with a range of 1,000 miles.
- 06/04/05** — Thousands of Hong Kong citizens gathered at Victoria Park to commemorate the Tiananmen Square crackdown killings of June 4, 1989.
- 06/01/05** — The Asian Development Bank released a study, “Coping with Global Imbalances and Asian Currencies,” which discusses the implications of reevaluating the PRC yuan.
- 05/07/05** — During an Asia-Europe meeting in Kyoto, PRC Foreign Minister Li Zhaoxing and Japanese Foreign Minister Nobutaka Machimura met to discuss ways of



easing Sino-Japanese tensions, including compensating Japan for damage caused by riots in China.

- 04/26/05** — U.S. Assistant Secretary of State Christopher Hill arrived in China to discuss ways to re-start the Six Party Talks involving North Korea's nuclear program. He reportedly asked Beijing to cut off oil shipments to North Korea, which the Chinese declined.
- 04/26/05** — KMT Chairman Lien Chan departed for an eight-day visit to China and a meeting with CCP Chairman Hu Jintao. It is the first time the leaders of the CCP and KMT will have met since World War II.
- 04/22/05** — Hong Kong journalist Ching Cheong, chief China correspondent for the *Straits Times*, was arrested in China after he went to collect a manuscript of interviews with Zhao Ziyang.
- 04/19/05** — The PRC convicted two U.S. citizens living in China on charges of intellectual property piracy, including selling fake DVD movies. Their arrests in July 2002 were coordinated between the U.S. Immigration Service and the Shanghai police, described as "the first joint counterfeiting investigation by ICE and Chinese authorities" by a U.S. Department of Homeland Security spokesman.
- 04/10/05** — Japan demanded a formal apology and compensation from Beijing over anti-Japanese protests in China during the weekend where an estimated 10,000 protestors marched against the Japanese Embassy and Japanese businesses in Beijing, throwing rocks and inflicting damage.
- 04/10/05** — Pakistani officials announced that China and Pakistan had agreed that Beijing would supply two more nuclear reactors to Pakistan in addition to the two reactors already promised.
- 04/09/05** — PRC Premier Wen Jiabao held talks in India with Prime Minister Manmohan Singh. The talks were reported to focus on energy projects.
- 04/08/05** — Peter Mandelson, the EU trade commissioner, asked his PRC counterpart for "proof" that China was adequately restraining its textile exports.
- 04/04/05** — The U.S. Commerce Department announced it was beginning an investigation into whether textile safeguard quotas should be imposed on imports of Chinese textiles.
- 03/30/05** — President Hu Jintao confirmed the appointment of Vice Foreign Minister Zhou Wenzhong as the new PRC Ambassador to the United States. Zhou arrived in Washington in early April 2005.
- 03/29/05** — Zhou Xiaochuan, governor of the People's Bank of China (the country's central bank), said that China would move to a flexible current exchange rate on its own timetable and after assessing the international balance of payments, not simply to rectify a trade imbalance with any individual country.

- 03/28/05** — In a ground-breaking visit, a Hong Kong delegation of Christian, Buddhist, Taoist, Confucian, and Islamic religious leaders, including Bishop Zen Ze-kium, head of the Catholic Church in Hong Kong, traveled to Guangzhou for discussions on religious matters.
- 03/28/05** — Australia released an opinion poll that revealed a majority of Australians believe U.S. foreign policy to pose as big a threat to world peace as Islamic fundamentalism. 84% of those polled expressed positive views of Japan; 69% expressed positive views of China; and 58% expressed positive views of the United States.
- 03/14/05** — China's NPC enacted an anti-secession law aimed at Taiwan independence advocates.
- 03/04/05** — In a panel discussion with CPPCC members representing Taiwan, Hu Jintao proposed a four-point guideline for China in pursuing cross-strait relations.
- 03/01/05** — Emerging from a meeting with President Bush, Senator Joe Biden called the EU intent to lift its arms embargo against China "a nonstarter with Congress." Senator Lugar said that Congress could react by placing "a prohibition on a great number of technical skills and materials, or products, being available to Europeans." Also, China's new law "Provisions on Religious Affairs" took effect. Text of the new law can be found at [<http://www.amitynewsservice.org/page.php?page=1289>].
- 02/23/05** — A senior WHO official, Dr. Shigeru Omi, warned that "the world is now in the gravest possible danger of a pandemic" from the avian flu ravaging Asia.
- 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 assure 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 (EXIM) has made a preliminary commitment to provide Westinghouse Electric with a \$5 billion package enabling it to build 4 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. Among other issues, the statement listed a peaceful resolution of Taiwan's situation as a mutual security concern — the first time Japan had placed itself on record in this way on the Taiwan issue. China denounced the joint statement the following day.
- 02/16/05** — Appearing before the Senate Select Committee on Intelligence, CIA Director Porter Goss and DIA Director Vice Adm. Lowell Jacoby testified that China's build-up of its military capabilities threatens U.S. forces in Asia.
- 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, and

that the government hoped to jumpstart formal negotiations during Prime Minister John Howard's April visit to Beijing for the Bo-ao Forum.

- 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 pegged at \$177.28 billion (a 33.6% increase over 2003.)
- 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 protect intellectual property rights.
- 02/02/05** — The PRC and Russia announced they would begin regular security consultations to enhance their military cooperation. PRC State Councillor Tang Jiaxun called Russia "China's main partner for strategic cooperation."
- 02/02/05** — Members of the House signed a bipartisan letter to Secretary of State Condoleezza Rice asking her to help with State's foot-dragging over transmitting congressional notifications for an \$28.2 billion arms sales to Taiwan. The letter was drafted by Representative Rob Simmons and signed by Representatives Roscoe G. Bartlett, Madeleine Z. Bordallo, Jeb Bradley, Lane Evans, Trent Franks, John N. Hostettler, and Christopher H. Smith.
- 02/02/05** — According to *The Washington Post*, 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 hexafluoride to Libya.
- 01/31/05** — The *People's Daily* published the full text of the "2005 Number 1 Document," a new PRC measure to reduce taxes on rural peasants and increase farm subsidies. The measure is intended to address the widening income gap between urban and rural residents — the source of increasing discontent and instability.
- 01/29/05** — Venezuelan President Hugo Chavez signed 19 agreements with PRC vice-president Zeng Qinghong, including agreements allowing China to develop oil and gas reserves in Venezuela.
- 01/29/05** — For the first time since 1949, Taiwan and China launched direct cross-strait charter flights for the Chinese New Year holiday. The United States issued a statement welcoming the flights.
- 01/28/05** — As China signed an agreement to purchase 60 new Boeing aircraft from the United States, Boeing officials announced they were renaming the new aircraft, the 7E7 Dreamliner, the 787 Dreamliner in recognition of the significance of the number 8 in China.

- 01/27/05** — Taiwan formally ended diplomatic ties with Grenada after the Caribbean island established formal ties with the PRC on January 20, 2005. The move reduces to 25 those countries with formal relations with Taiwan.
- 01/27/05** — Japan's Ministry of Finance released figures illustrating that in 2004, China for the first time surpassed the United States as Japan's largest trading partner. China in 2004 accounted for 20.1% of total Japanese trade, while the United States accounted for 18.6 %.
- 01/24/05** — China and India began a "strategic dialogue" on mutual security concerns. According to a news account in *The Straits Times*, the talks will pave the way for PRC Premier Wen Jiabao's spring 2005 visit to New Delhi.
- 01/12/05** — The British government announced that the European Union likely would lift its arms embargo against the PRC some time in the next few months.
- 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.
- 01/05/05** — Chen Yunlin, the PRC's senior cross-strait official as head of the official Taiwan Affairs Office, met in Washington with U.S. Deputy Secretary of State Richard Armitage. The purpose of the meeting reportedly was to portray the PRC's proposed anti-secession law as beneficial, rather than destabilizing, to the status quo.