

# CRS Report for Congress

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

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Prepared for Members and  
Committees of Congress

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

## Summary

U.S.-China relations have been remarkably smooth since late 2001, although there are signs that U.S. China policy now is subject to competing reassessments. State Department officials in 2005 unveiled what they said was a new framework for the relationship — with the United States willing to work cooperatively with a non-democratic China while encouraging Beijing to become a “responsible stakeholder” in the global system. U.S. Treasury Secretary Henry Paulson in December 2006 established a U.S.-China Strategic Economic Dialogue with Beijing, the most senior regular dialogue yet held with China. But other U.S. policymakers have adopted tougher stances on issues involving China and U.S.-China relations, concerned about the impact of the PRC’s strong economic growth and a more assertive PRC diplomacy in the international arena. Another matter of growing concern is China’s increasing global “reach” and the consequences that expanding PRC international influence has for U.S. interests. To feed its appetite for resources, China has been steadily signing 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.

Taiwan, which China considers a “renegade province,” remains the most sensitive issue the two countries face and the one many observers fear could lead to Sino-U.S. conflict. But U.S. relations with Taiwan have also been plagued by what some U.S. officials see as that government’s minimal military spending, its failure to enact funding bills that allow it to purchase U.S. weapons offered for sale in 2001, and the recurrent independence-leaning actions and rhetoric of its President and other government officials, which U.S. officials have called “unhelpful” to regional stability.

Much U.S. concern about China appears driven by security calculations in Congress and at the Pentagon, where officials question the motivations behind China’s expanding military budget. A congressionally mandated DOD report concluded Beijing is greatly understating its military expenditures and is developing anti-satellite (ASAT) systems — a claim that gained more credence when the PRC used a ballistic missile to destroy one of its own orbiting satellites in January 2007. Bilateral economic and trade issues also are growing matters of concern. U.S. officials and lawmakers particularly criticize China’s massive bilateral trade surplus, its failure to halt piracy of U.S. intellectual property rights (IPR), and its continued constraints on currency valuation. More recently, allegations about the quality of Chinese imports have raised growing concerns about the PRC’s poor product safety enforcement regime.

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

## Contents

|  |    |
|--|----|
| Most Recent Developments .....                               | 1  |
| Background and Overview .....                                | 1  |
| Introduction .....   | 1  |
| Background .....   | 2  |
| Current Issues and Developments .....                        | 3  |
| Concerns about Product Safety .....                          | 3  |
| Military and National Security Issues .....                  | 5  |
| China's Growing Military Power .....                         | 5  |
| PRC Anti-Satellite Test .....                                | 6  |
| Continuing Espionage Charges .....                           | 6  |
| Weapons Proliferation .....                                  | 7  |
| Military Contacts .....                                      | 7  |
| Economic and Trade Issues .....                              | 8  |
| Currency Valuation .....                                     | 8  |
| Unfair Trade Subsidies .....                                 | 9  |
| Intellectual Property Rights .....                           | 9  |
| North Korea .....  | 9  |
| Six Party Talks .....  | 10 |
| October 2006 Nuclear Test .....                              | 11 |
| U.S.-PRC Official Dialogues .....                            | 12 |
| The Senior Dialogue and Strategic Economic Dialogue .....    | 12 |
| Taiwan .....   | 14 |
| Referendum on U.N. Membership for Taiwan .....               | 14 |
| U.S. Taiwan Policy and U.S. Arms Sales .....                 | 15 |
| Corruption Scandals in the Chen Administration .....         | 16 |
| Changing PRC Political Pressure on Taiwan .....              | 16 |
| Official Taiwan-PRC Contacts .....                           | 17 |
| China's Growing Global Reach .....                           | 18 |
| Asia .....   | 18 |
| European Union .....   | 21 |
| Middle East and Africa .....                                 | 22 |
| Western Hemisphere .....                                     | 23 |
| China and Environmental Issues .....                         | 24 |
| Domestic Political Issues .....                              | 25 |
| Social Stability .....                                       | 26 |
| Key Party and Government Meetings in 2007 .....              | 26 |
| Tibet .....  | 27 |
| Xinjiang's Ethnic Muslims .....                              | 28 |
| Internet and Media Restrictions .....                        | 29 |
| Human Rights .....   | 29 |
| Religious Freedom .....                                      | 30 |
| Family Planning Policies .....                               | 30 |
| Hong Kong Governance .....                                   | 31 |
| U.S. Policy Implications .....                               | 32 |
| Selected Legislation in the 110 <sup>th</sup> Congress ..... | 34 |

|  |    |
|--|----|
| Chronology .....   | 38 |
| Appendix I: Selected Visits by U.S. and PRC Officials .....        | 43 |
| Appendix II: Selected U.S. Government Reporting Requirements ..... | 44 |

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

## Most Recent Developments

September 19, 2007 — For the 15<sup>th</sup> consecutive year, a U.N. General Assembly Committee (the General Committee) rejected the recommendation that Taiwan's formal U.N. membership be considered at this year's General Assembly meeting.

September 17, 2007 — China announced it will send a 315-member engineering unit to Darfur in October 2007 as part of a combined UN-African Union force of 26,000. The same day, the *Financial Times* reported that China had rejected shipments of U.S. and Canadian port because they contained the additive ractopamine, a banned substance in China.

September 16, 2007 — China's Taiwan Affairs Office said that Beijing was "preparing for a serious situation" as a result of Taiwan's UN membership bid.

September 15, 2007 — *New York Times* researcher Zhao Yan was released from prison after serving a three-year sentence for accepting money from a source, a charge he denies. He was arrested originally for "leaking state secrets."

September 12, 2007 — The Pentagon announced \$2.2 billion in possible military sales to Taiwan, including 12 surplus Orion P3-C maritime patrol craft and 144 SM-2 Block 3A Standard anti-aircraft missiles, built by Raytheon.

September 10, 2007 — Taiwan Defense Minister Ko Cheng-heng said that Taiwan had an "urgent and legitimate need" to buy F-16s. Minister Ko made the statement while attending the Sixth U.S.-Taiwan Defense Industry Conference in the United States.

## Background and Overview

### Introduction

U.S. relations with the People's Republic of China (PRC), remarkably smooth from 2001-2004, have shown signs of becoming somewhat more problematic again since 2005 as some U.S. policymakers appear to be adopting tougher stances on a number of issues. 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 continue to be factors in the relationship, including difficulties over China's intentions toward and U.S. commitments to democratic Taiwan, various disputes over China's failure to protect U.S. intellectual property rights, the economic advantage China gains from pegging its currency to a basket of international currencies, and growing concerns about the quality and safety of some exported Chinese products. In addition, China's accelerating rise in the world has significant long-term implications for U.S. global power and influence. In pursuit of its economic development agenda, China's growing appetite for energy, raw materials, and other resources has led it to seek an increasing number of economic and energy-related agreements around the world, some of them with key U.S. allies. Some U.S. lawmakers have suggested that U.S. policies should be reassessed in light of the PRC's continued strong economic growth and more assertive international posture.

## **Background**

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

During the later Clinton Administration, when U.S. officials were pursuing a "strategic partnership" with China, some Members became increasingly concerned that the U.S. government was not thinking seriously enough about the PRC as a longer-term challenge (at best) or threat (at worst) to U.S. interests. Members were particularly concerned about supporting the democratization and growing political pluralism Taiwan had embraced since abandoning authoritarian rule in the late 1980s. Congress in these years enacted more provisions to accommodate Taiwan's interests, engaged in repeated and protracted efforts to further condition or even withdraw the PRC's most-favored-nation (MFN) trade status, held hearings and considered legislation targeting the PRC's human rights violations, created two commissions to monitor PRC developments, and imposed a host of requirements on the U.S. government to monitor, report on, and restrict certain PRC activities.<sup>1</sup>

In late 2001, U.S.-China relations began to experience a sustained period of unusual stability, and Congress as a whole became less vocal and less legislatively active on China-related issues. The reasons for this could not be attributed to any

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

resolution of entrenched bilateral policy differences — such as those long held over human rights or on Taiwan’s status — for these differences still existed and are likely to plague the relationship for the foreseeable future. Rather, other factors and policy trends appeared to be at work.

- The George W. Bush Administration’s early willingness to de-emphasize the importance of Sino-U.S. relations in American foreign policy, even while being open to substantively and symbolically meaningful dialogue with China at most senior levels.
- The Bush Administration’s greater initial support for Taiwan security, which served to balance U.S. contacts with the PRC and eliminate recurring White House tensions with Congress, where Taiwan is an interest of many Members.
- The September 11, 2001 terrorist attacks against the United States, which brought about dramatic changes in global and national priorities, including new agendas within Congress, that took priority over other foreign policy issues, including the PRC.
- PRC preoccupations in 2001-2003 with a wholesale transition to a new generation of leaders who began to put their own stamp on policy decisions.<sup>2</sup>

This report addresses relevant policy questions in current U.S.-China relations, discusses trends and key legislation in the current Congress and provides a chronology of developments and high-level exchanges. It will be updated as events warrant. Additional details on the issues discussed here are available in other CRS products, noted throughout this report. For background information and legislative action preceding 2007, see CRS Report RL32804, *China-U.S. Relations During the 109<sup>th</sup> Congress*, by Kerry Dumbaugh. CRS products can be found on the CRS website at [<http://www.crs.gov/>].

## Current Issues and Developments

### Concerns about Product Safety

In spring of 2007, reports of tainted, mislabeled, and outright fraudulent imported consumer products from China began to raise serious questions about the safety of U.S. imported products from other countries, the effectiveness of current

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

U.S. product safety inspection regimes, and the vulnerability of the U.S. food supply to accidental contamination or deliberate tampering. More specifically, the issue has highlighted growing concerns, born during the SARS crisis of 2002-2003, about potential threats to the global health system posed by the PRC's limited food and pharmaceutical safety standards, poor industry and product quality control, and lack of transparency.

Initial questions about the safety of imported products from China surfaced in March and April 2007, when an investigation by the U.S. Food and Drug Administration (FDA) linked tainted exports of pet food with wheat gluten from China to reports of pet deaths from kidney failure in the United States. The Canadian company that had imported the product, Menu Foods, initiated a massive recall of its products on March 16, 2007, and the recall effort later expanded to more brands of pet foods and other pet food manufacturers.<sup>3</sup> On April 3, 2007, the FDA began halting imports of wheat gluten from a PRC company, the Xuzhou Anying Biologic Technology Development Co. Ltd., saying it had tested positive for the tainted wheat gluten.<sup>4</sup> Although the PRC government initially denied its pet food products were tainted, it later reversed that position, admitting on April 26, 2007, that PRC companies had exported melamine-laced wheat gluten to the United States.<sup>5</sup>

The pet food contamination was the beginning of a series of well publicized recalls of PRC imported products including fish, tires, toothpaste, and toys. Two of these — Menu Foods pet food recall and Mattel's voluntary recall of over 18 million toys, announced on August 14, 2007 — have been reported on most widely.<sup>6</sup> But by August 17, 2007, the U.S. Consumer Product Safety Commission (CPSC) had issued nearly 150 recall notices in 2007 for Chinese-manufactured products, including electric throws; ceramic heaters; folding recliner chairs; children's jewelry; kayak paddle floats; baby cribs; candles; oil-filled electric heaters; boom boxes; bicycles; clothing; gas lighters; remote controls; lamps; curling irons; and hair dryers.<sup>7</sup>

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

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<sup>3</sup> On April 12, 2007, the Director of the FDA Center for Veterinary Medicine, Stephen F. Sundlof, and other witnesses testified before the Senate Appropriations Committee's Subcommittee on Agriculture, Rural Development, and Related Agencies on the scope of the recall and the path of the FDA's investigation.

<sup>4</sup> Later, Binzhou Futian Biology Technology, another PRC company, was also implicated.

<sup>5</sup> See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne Morrison.

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

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

consumer products, including clothing, toys, cigarette and multipurpose lighters, home appliances, hazardous chemical consumer products, and bicycle helmets. The two agencies held a Consumer Product Safety Summit (CPSS) in Beijing in 2005, and a second CPSS meeting in Washington on September 11, 2007.

Leaders in Beijing appear concerned about the implications that recent recalls may have for international wariness about PRC products. Since late April 2007, China has announced a ban on melamine in food products, initiated nation-wide inspections of wheat gluten, and (on May 11, 2007) arrested an official from one of the companies for falsifying the labeling on exported products to evade inspection.<sup>8</sup> On July 10, 2007, Beijing announced it had executed the former official in charge of the State Food and Drug Administration for accepting bribes to approve tainted or fraudulent products. On August 15, 2007, officials at the Chinese Embassy in Washington, DC, held a rare news conference, defending the overall quality of Chinese products and stating that China would be enhancing significantly its inspection regime of toys and food being exported to the United States. On August 17, 2007, Beijing took two further actions: the PRC State Council Information Office released the government's first report on food quality and safety regimes, "The Quality and Safety of Food in China"; and Beijing appointed Vice Premier Wu Yi to head a new Cabinet-level panel charged with ensuring product quality and food safety.<sup>9</sup>

## Military and National Security Issues

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

**China's Growing Military Power.** In its annual, congressionally mandated report on China's Military Power (most recently released in May 2007) the Pentagon concluded that China is greatly improving its military, including the number and capabilities of its nuclear forces. U.S. military planners and other American military specialists maintain that PRC improvements appear largely focused on a Taiwan contingency and on strategies to "deny access" to the military forces of a third party — most probably the United States — in the event of a conflict over Taiwan. The report maintains that this build-up poses a long-term threat to Taiwan and ultimately to the U.S. military presence in Asia.

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<sup>8</sup> A report citing China's General Administration of Quality Supervision, Inspection, and Quarantine. Lee, Don, and Goldman, Abigail, "Plant linked to pet deaths had history of polluting," *Los Angeles Times*, May 9, 2007, p. C-1.

<sup>9</sup> The full text of China's new white paper on food quality and safety can be found at [[http://news.xinhuanet.com/english/2007-08/17/content\\_6553424.htm](http://news.xinhuanet.com/english/2007-08/17/content_6553424.htm)].

In March 2007, after Beijing announced that its military budget would increase during the year by nearly 18%, U.S. officials called China's military build-up a continuing "source of concern and interest" for the world, and urged PRC leaders to address these concerns by adopting greater transparency in military matters.<sup>10</sup> U.S. military planners remain concerned that at least some and perhaps much of China's military build-up is being driven by Beijing's preparations to enforce its sovereignty claims against the island of Taiwan. (Appendix II of this paper contains a list, legislative authority, and text links for selected mandated U.S. government reports on China, including the report on China's Military Power.)

**PRC Anti-Satellite Test.** On January 11, 2007, the PRC carried out its first successful anti-satellite (ASAT) test by destroying one of its moribund orbiting weather satellites with a ballistic missile fired from the ground. Previously, only the United States and the Soviet Union had conducted successful ASAT tests — tests both countries reportedly halted more than 20 years ago because of resulting space debris that could endanger other orbiting satellites. U.S. officials reportedly received no advance notice from Beijing, nor did Chinese officials publicly confirm the ASAT test until January 24, 2006, 13 days after the event and almost a week after the U.S. Government had publicly revealed the PRC test on January 18, 2007.

The January PRC ASAT test and the lack of advance notification to U.S. officials by Beijing has raised a number of concerns for U.S. policy. Chief among these are questions about the new potential vulnerability of U.S. satellites — crucial for both U.S. military operations and a wide range of civilian communications applications — and the credibility of PRC assertions that it is committed to the peaceful use of space.

In addition, officials from the United States and other countries have criticized China for either ignoring or failing to realize the extent of the test's contributions to the growing problem of space debris. According to space science experts, the extent of space debris now orbiting the earth, which is already calculated at about 10,000 detectable items, poses an increasing hazard to hundreds of the world's operational satellites, any of which could be destroyed upon collision with a piece of space "junk."<sup>11</sup> Beijing, which hosted the annual meeting of the Inter-Agency Space Debris Coordination Committee from April 23-26, 2007, itself became a significant contributor to the space debris problem with its January 2007 ASAT test. According to a State Department spokesman, the United States is reevaluating its nascent civil space cooperation with China (initiated during the meeting of Presidents George Bush and Hu Jintao in April 2006) in light of the January ASAT test.<sup>12</sup>

**Continuing Espionage Charges.** On March 27, 2007, Mr. Chi Mak, a Chinese-born U.S. engineer arrested in 2005, went on trial in federal court in Los

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<sup>10</sup> Statement by State Department spokesman Sean McCormack, March 8, 2007.

<sup>11</sup> Broad, William J., "Orbiting junk, once a nuisance, is now a threat," *New York Times*, February 6, 2007, p. 1.

<sup>12</sup> Author's conversation with a State Department spokesman on February 6, 2007; see also "U.S. reviewing space cooperation with China after anti-satellite test," *Agence France Presse*, February 3, 2007.

Angeles for allegedly providing China with sensitive high-tech Navy weapons technology that he had helped develop while working for his employer, Power Paragon. According to the allegations, the technology included sensitive details about the Navy's Aegis-class battleship technology; quiet drive technology for new generations of warships; electro-magnetic artillery; and missile detection and nuclear defense.<sup>13</sup> The defense maintained that the material was not classified but was in the public domain. On May 11, 2007, Chi Mak was found guilty of conspiracy to violate export regulations and for failing to register as a Chinese agent. He is scheduled to be sentenced on September 10, 2007.

**Weapons Proliferation.** For many years, U.S. officials and Members of Congress have been concerned about the PRC's track record of weapons sales, technology transfers, and nuclear energy assistance to certain countries in the Middle East and South Asia, particularly to Iran and Pakistan. While some U.S. officials have grown more confident that the PRC is changing its proliferation policies, congressional and other critics charge that such confidence is misplaced.<sup>14</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>15</sup> Although these allegations have always created problems in Sino-U.S. relations, they have taken on new and potentially significant implications given the Administration's emphasis on controlling the spread of weapons of mass destruction as well as WMD programs as well as later disclosures about nuclear weapons programs in Iran and North Korea. The PRC has had close relationships with both countries in the past, including sales of military equipment that could threaten U.S. forces in the region and missiles that could enhance a nuclear weapons capability.<sup>16</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 resumed military contacts during the 108<sup>th</sup> Congress, although efforts to reenergize military ties met with repeated setbacks, with U.S. Secretary of Defense Donald Rumsfeld making his first official visit to China as Secretary of Defense only

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<sup>13</sup> Flaccus, Gillian, "Chinese-born engineer accused of stealing secrets awaits trial," *Associated Press Newswires*, March 22, 2007.

<sup>14</sup> As reasons for such confidence, some point to events since the 1990s, when the PRC has promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear Non-Proliferation Treaty (NPT), which it did in 1992; signed the Chemical Weapons Convention (CWC), which it did in 1993; signed the Comprehensive Test Ban Treaty (1996); and joined the Zangger Committee of NPT exporters (1997).

<sup>15</sup> For details, see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley Kan.

<sup>16</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 nonproliferation Act of 1992 (50 U.S.C. § 1701), which requires sanctions on countries that sell destabilizing weapons to Iran or Iraq.

in October 2005.<sup>17</sup> Since March 2007, four senior U.S. military officials have visited China. (See appendix at the end of this report for a list of recent U.S.-China official visits.)

## **Economic and Trade Issues<sup>18</sup>**

Economic and trade issues are a growing source of contention in U.S.-China relations in 2007. The PRC is now the second-largest U.S. trading partner, with total U.S.-China trade in 2006 at \$343 billion. Ongoing issues in U.S.-China economic relations include the substantial and growing U.S. trade deficit with China (an estimated \$232 billion in 2006), repeated PRC inability to protect U.S. intellectual property rights, and the PRC's continuing restrictive trade practices, such as its unwillingness to date to float its currency. (Issues involving allegations about tainted or faulty PRC exports to the United States are dealt with earlier in this report.) In addition, some U.S. policymakers have focused attention in recent years on efforts by PRC companies to buy American assets.

**Currency Valuation.** On June 13, 2007, the U.S. Treasury Department released a mandated, semi-annual report to Congress on international exchange rates in which it concluded that China “did not meet the technical requirements for designation” [as a currency manipulator] under U.S. law, but declaring that the United States “forcefully” raises the currency valuation issue with PRC leaders at every opportunity.<sup>19</sup> The report also concluded that China's economy was “severely” unbalanced — overly dependent on exports and with weak consumer spending and at home. The Treasury report prompted renewed calls and legislation in Congress for firmer U.S. action to mitigate the effects of China's currency restrictions.

The U.S. concern about the PRC's decision to keep the value of its currency low with respect to the dollar, and indirectly with the yen and euro, has been building for several years. Until 2005, the PRC pegged its currency, the renminbi (RMB), to the U.S. dollar at a rate of about 8.3 RMB to the dollar — a valuation that many U.S. policymakers concluded kept the PRC's currency artificially undervalued, making PRC exports artificially cheap and making it harder for U.S. producers to compete. U.S. critics of the PRC's currency peg charged that the PRC unfairly manipulated its currency, and they have urged Beijing either to raise the RMB's value or to make it freely convertible subject to market forces. On July 1, 2005, the PRC changed this valuation method, instead announcing it would peg the RMB to a basket of currencies.

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<sup>17</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

<sup>18</sup> See CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne Morrison, for further details.

<sup>19</sup> For the full text of the Treasury Department report, see [[http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/pdf/2007\\_FXReport.pdf](http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/pdf/2007_FXReport.pdf)].

The resulting small appreciations in the RMB from this action have not been sufficient to assuage ongoing U.S. congressional concerns.<sup>20</sup> Since August 1, 2007, both the Senate Finance Committee and the Senate Banking, Housing, and Urban Affairs Committee have reported legislation addressing currency exchange rate issues.<sup>21</sup>

**Unfair Trade Subsidies.** On March 20, 2007, the U.S. Department of Commerce announced a preliminary decision to apply countervailing duties (an anti-subsidy remedy) to two PRC companies exporting “coated free sheet” (glossy) paper to the United States. The announcement broke with a 23-year U.S. policy, adopted in 1984, of not applying U.S. countervailing duty laws to non-market economies. Citing a 177% increase in imports of PRC glossy paper products from 2005-2006, Secretary of Commerce Carlos M. Gutierrez said that the PRC economy had evolved significantly in the last two decades and that U.S. tools to address unfair competition needed to evolve in response.

The move signals a new U.S. willingness to be assertive in challenging PRC trade policies and suggests that other American industries affected by the PRC’s exports, such as textile, steel, and plastics, may soon be seeking similar remedies. Beijing’s sharp criticism of the U.S. move hints at potential trade retaliation and has possible negative implications for the ongoing U.S.-China “Senior Dialogue” being chaired by Treasury Secretary Henry Paulson.

**Intellectual Property Rights.** China’s inability to live up to its World Trade Organization (WTO) commitments to protect intellectual property rights (IPR) has become one of the most important issues in U.S.-China bilateral trade. According to 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 is estimated at around 90%.<sup>22</sup> U.S. officials routinely have urged Beijing to crack down on IPR piracy, and a series of U.S. officials visiting China have stressed that China needs to do better at IPR protection.

## North Korea

Progress on dismantling North Korea’s nuclear weapons program continues to be elusive. After months of apparent forward movement, the Chinese government on September 16 informed the U.S. Government that a meeting among all parties, scheduled for mid-September 2007, had been abruptly cancelled. Some have

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<sup>20</sup> For more information, see CRS Report RS21625, *China’s Currency: A Summary of the Economic Issues*, by Wayne M. Morrison and Marc Labonte.

<sup>21</sup> The Senate Committee on Banking, Housing, and Urban Affairs reported S. 1677, the Currency Reform and Financial Markets Access Act of 2007; the Senate Finance Committee reported S. 1607, the Currency Exchange Rate Oversight Reform Act of 2007.

<sup>22</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.

speculated that the cancellation had to do with reportedly new intelligence, leaked the previous week, that North Korea may be engaged in nuclear cooperation with Syria.<sup>23</sup>

**Six Party Talks.** After months of continuing stalemate in 2006 in the frequently problematic Six-Party Talks, optimism for a deal warmed after February 13, 2007, when the six parties to the talks signed a document, the “Initial Actions for the Implementation of the Joint Statement,” designed to begin implementing the joint statement issued in September 2005. Under that agreement, North Korea is to dismantle its nuclear weapons program and permit international inspections to resume in exchange for a package of incentives, including food and energy assistance and the transfer back of \$25 million in North Korean-linked funds that were frozen by the Banco Delta Asia, located in Macau, in September 2005.<sup>24</sup>

With the Macau funds having been transferred, the North Korean nuclear reactor at Yongbyon confirmed as shut down, and International Atomic Energy Agency (IAEA) inspectors present in North Korea again as of July 14, 2007, the next stage of the February agreement calls for Pyongyang to declare all its nuclear programs and disable all its existing nuclear facilities. Six-Party Talks began again on July 19, 2007, ostensibly to discuss permanently disabling the closed Yongbyon reactor and full disclosure by North Korea of its nuclear research and weapons development programs. After three days, talks concluded with no agreement on a schedule for North Korea’s nuclear disarmament, although U.S. chief envoy Christopher Hill subsequently has appeared cautiously optimistic on further progress.<sup>25</sup> The next round of the Six-Party talks were to take place in September 2007. (As stated above, it is this round of talks that was abruptly cancelled on September 16, 2007.)

PRC officials repeatedly have 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 a common U.S. view has been that Beijing has not exerted enough direct pressure on North Korea, and is in fact continuing to prop up the North Korean regime with supplies of food and fuel and to advocate bilateral U.S.-North Korean dialogue. According to other views, PRC officials primarily exert political pressure on North Korea, preferring to avoid economic pressure that they judge could lead to instability in North Korea.<sup>26</sup>

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<sup>23</sup> Kessler, Glenn, “North Korea, Syria may be at work on nuclear facility,” *The Washington Post*, September 13, 2007, p. A12.

<sup>24</sup> The funds were frozen after the United States declared the Macau bank a “primary money laundering concern.”

<sup>25</sup> “U.S. envoy sounds cautious on North Korea nuclear talks,” *The Wall St. Journal Asia*, August 15, 2007, p. 9.

<sup>26</sup> de Nesnera, Andre, “Analysts: alliance between China, North Korea strained over nuclear issue,” *Voice of America*, February 7, 2007.

**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 that elevated the North Korean issue to an even more prominent position in the U.S. political agenda with China.

The evolving PRC reaction after the October 9<sup>th</sup> test appears 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 initial speculation in the press and by some American experts was that the PRC now would be forced to become more coercive in its North Korea policy.<sup>27</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>28</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>29</sup> Some news accounts maintained that after the nuclear test the PRC began augmenting its military forces along the Sino-North Korean border and erecting barbed-wire fences along some stretches of the border.<sup>30</sup>

But by other measures, Beijing's resolve has 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 "appropriate and moderate" measures to further negotiations.<sup>31</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

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<sup>27</sup> Tkacik, John, "A new tack for China after North Korea's nuclear test?" *The Heritage Foundation*, Webmemo #1236, October 11, 2006.

<sup>28</sup> PRC Foreign Ministry Issues Statement on DPRK Nuclear Test, *Beijing Xinhua Domestic Service*, in Chinese, translated in *FBIS*, FEA20061009028538, October 9, 2006.

<sup>29</sup> OSC Analysis, "China moderating criticism of DPRK in bid to restart talks," CPP20061013307001, October 13, 2006.

<sup>30</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.

<sup>31</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.

Korea and an immediate freeze of North Korean financial assets.<sup>32</sup> After the U.N. vote, 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 began blocking financial transactions with North Korea,<sup>33</sup> and that Chinese officials were prepared to reduce oil shipments and take other actions if North Korea refused to return to the Six Party Talks.<sup>34</sup>

## U.S.-PRC Official Dialogues

**The Senior Dialogue and Strategic Economic Dialogue.** In recent years, two new high-level U.S.-China dialogues have been formed: the U.S.-China Senior Dialogue under the auspices of the State Department, and the U.S.-China Strategic Economic Dialogue under the auspices of the Treasury Department. Each of these is intended to meet twice annually so that Cabinet-level officials in both parties can hold regular talks on key issues. In Beijing in August 2005, Deputy Secretary of State Robert Zoellick and PRC Vice Foreign Minister Dai Bingguo presided over the initial round of the Senior Dialogue, which was first suggested by PRC President Hu Jintao in 2004 during a meeting with President Bush. The third round of Senior Dialogue talks were held in November in Beijing.

On September 20, 2006, during the first of his three trips (as of March 2007) to China as Treasury Secretary, Henry Paulson announced that he would chair a new senior-level mechanism for bilateral dialogue, the U.S.-China Strategic Economic Dialogue (SED), which like the Senior Dialogue would be held twice annually and focus on “fundamental, long-term issues” in bilateral relations.<sup>35</sup> In the first SED meeting, held December 14-15, 2006, six U.S. Cabinet officers and other senior U.S. officials visited Beijing to promote increased access for U.S. exports and better U.S.-China trade ties.<sup>36</sup> The second SED round, held in Washington on May 22-23, 2007, was attended by 17 U.S. cabinet officials and agency heads and by 15 PRC ministers and representatives from 21 PRC government ministries and agencies.<sup>37</sup> According to the U.S. Treasury Department, the second meeting resulted in agreements to provide greater access in China to U.S. goods and services, including in the financial

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<sup>32</sup> Text of U.N. resolution on N. Korea sanctions, Associated Press, October 14, 2006.

<sup>33</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>34</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>35</sup> Treasury Secretary Henry M. Paulson press briefing in Beijing, September 20, 2006. Joint statement at [<http://www.treas.gov/press/releases/hp105.htm>].

<sup>36</sup> 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.

<sup>37</sup> U.S. Department of the Treasury Fact Sheet, “Second meeting of the U.S.-China Strategic Dialogue,” May 23, 2007.

sector; cooperate further in promoting energy security and environmental protection; and strengthen the PRC's enforcement of intellectual property rights laws.

The two most recent bilateral dialogue venues join a host of other regularly occurring official U.S.-China dialogues that hold regular meetings, generally on either an annual or biannual basis. These include the following:

- **The Joint Commission on Commerce and Trade (JCCT)**, initiated in 1983 and elevated in 2003 to a senior level. Participating agencies are the U.S. Department of Commerce, the U.S. Trade Representative, and the PRC Vice Premier responsible for trade. The 17<sup>th</sup> session was held in Washington DC in April 2006.
- **The U.S.-China Joint Economic Committee (JEC)**, initiated in 1979. Participating agencies are the U.S. Department of the Treasury and the PRC Ministry of Finance.
- **The U.S.-China Joint Commission on Science and Technology (JCST)**, initiated in 1979. Participating agencies are the Office of Science and Technology Policy (White House), the State Department's Office of Science and Technology Cooperation, and the PRC Ministry of Science and Technology.
- **The U.S.-China Economic Development and Reform Dialogue (EDRD)**, initiated in 2003. Participating agencies are the U.S. Department of State and the PRC National Development and Reform Commission.
- **The U.S.-China Energy Policy Dialogue (EPD)**, negotiated in 2004 and initiated in 2005. Participating agencies are the U.S. Department of Energy and China's National Development and Reform Commission.
- **The Global Issues Forum (GIF)**, negotiated in 2004 and initiated in 2005. Participating agencies include the U.S. Department of State's Bureau for Democracy and Global Affairs and the PRC Ministry of Foreign Affairs.
- **The U.S.-China Healthcare Forum (HCF)**, initiated in July 2005. Participating agencies are the U.S. Department of Commerce and the Department of Health and Human Services; and the PRC Ministry of Health and Ministry of Commerce.
- **The Asia-Pacific Partnership on Clean Development and Climate (AP6)**, announced in 2005 and initiated in 2006. The forum brings together China, the United States, Australia, India, Japan, and Korea.

Notably absent from the regularized U.S.-China dialogue process is an official U.S.-China military or defense dialogue at a comparable level of intensity. The mechanism that does exist, the Defense Consultative Talks (DCT), intermittent and plagued with recurring setbacks, has been of dubious value for a number of reasons.<sup>38</sup> Admiral William Fallon, attempting to revitalize U.S.-China military ties as

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<sup>38</sup> See CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

Commander of the U.S. Pacific Command, was quoted in 2006 as saying that there had been so much decline in U.S.-China military ties in recent years that he was “starting from virtually zero” in trying to rebuild contacts.<sup>39</sup> Admiral Fallon’s successor, Admiral Timothy Keating, visited China in May 2007 to continue efforts to build closer military ties.

## Taiwan

Taiwan remains the most sensitive and complex issue that U.S. policymakers face in bilateral Sino-U.S. relations.<sup>40</sup> It is the issue that many observers most fear could lead to potential U.S.-China conflict. Beijing continues to lay sovereign claim to Taiwan and vows that one day Taiwan will be reunified with China either peacefully or by force. Beijing has long maintained that it has the option to use force should Taiwan declare independence from China. Chinese leaders are supporting these long-standing claims with more than 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.” Still, Beijing’s rhetoric and position on Taiwan are seen to have become somewhat less forceful since China’s passage of an anti-secession law in March 2005 aimed at Taiwan independence activists.

China watchers remain especially watchful 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.

**Referendum on U.N. Membership for Taiwan.** After years of unsuccessful attempts to win observer status in the United Nations and its affiliate bodies, particularly the World Health Organization (WHO), Taiwan in 2007 changed tactics and submitted an application for full membership under its formal name, the “Republic of China.” This effort in the WHO failed.<sup>41</sup> By late May 2007, Taiwan’s

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<sup>39</sup> Scott Tyson, Ann, “Admiral tries to revive Chinese ties,” *Washington Post*, September 23, 2006, p. A14.

<sup>40</sup> For an analysis of current problems and challenges for U.S. policy toward Taiwan, see CRS Report RL33684, *Underlying Strains in Taiwan-U.S. Political Relations*, by Kerry Dumbaugh.

<sup>41</sup> On May 14, 2007, WHO’s annual assembly meeting voted 148-17 not to consider (continued...)

President Chen began to argue that Taiwan should apply to these U.N. agencies under the name “Taiwan,” and on June 18, 2007, Chen announced that he would hold an island-wide referendum on this subject in conjunction with Taiwan’s presidential elections in March 2008. Even so, the Taiwan government independently has taken a number of steps in pursuit of full U.N. membership under the name “Taiwan.” Taipei has submitted two letters of application to the U.N. (July 19, 2007 and July 31, 2007), both of which were returned on the grounds that such an action would violate the U.N.’s “one China” policy). And for the 15<sup>th</sup> consecutive year, on September 19, 2007, a committee of the General Assembly decided not to include Taiwan’s application for U.N. membership on the agenda of the (62<sup>nd</sup>) General Assembly meeting.

Taiwan’s potential participation in the United Nations is controversial, and vigorously opposed by China, because it suggests that Taiwan is a sovereign state separate from the mainland. The U.S. government is on record as supporting Taiwan’s membership in organizations “where state-hood is not an issue.”<sup>42</sup> In one of many statements over the years on this subject, a State Department spokesman on June 19, 2007, reacted to President Chen’s U.N. referendum announcement by saying, “We do not support Taiwan’s membership in international organizations that require statehood [for membership]....This would include a referendum on whether or apply to the United Nations under ‘Taiwan’.”<sup>43</sup>

Beijing argues 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. Always opposed to Taiwan’s U.N. bids, Beijing appears to view the 2007 applications and the referendum being discussed in Taiwan for 2008 as especially threatening. A spokesman from China’s Taiwan Affairs Office said on September 16, 2007, that Beijing had “made necessary preparations” to “deal with serious conditions” as a result of Taiwan’s UN membership bid. No details were provided on what “necessary preparations” involved.

For its part, Taiwan in the past has maintained that its “observer status” in U.N. bodies such as WHO would be an apolitical solution since other non-sovereign entities, like the Holy See and the Palestine Liberation Organization, have been given such status. 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>44</sup>

**U.S. Taiwan Policy and U.S. Arms Sales.** Given Taiwan-PRC tensions and U.S. defense interests in Taiwan, many U.S. policymakers have grown frustrated

<sup>41</sup> (...continued)  
Taiwan’s new application.

<sup>42</sup> A State Department spokesman, in response to a press question at the State Department press briefing of March 20, 2002.

<sup>43</sup> Department of State spokesman Sean McCormack at the daily press briefing on June 19, 2007.

<sup>44</sup> The bill, S. 2092, was enacted as P.L. 108-235.

with Taiwan's falling military expenditures and its perceived decline in defense readiness. Political disagreements in Taiwan also have kept the government from purchasing much of the weaponry President Bush approved for sale in 2001. Until 2007, these disagreements stalled a special arms acquisition budget that the government submitted to Taiwan's legislature, originally for \$18 billion, then slashed to \$15 billion and finally to \$6.3 billion in an effort to attract legislative support. The \$6.3 billion compromise arms budget package was blocked again by the Taiwan opposition coalition on October 24, 2006. The Director of the U.S. American Institute in Taiwan (AIT) 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>45</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 continue.<sup>46</sup>

On June 15, 2007, Taiwan's legislature passed a 2007 defense budget which included funds for portions of the 2001 U.S. weapons package. In addition to funds (\$6 million) for a feasibility study for diesel submarines, the budget included funds for P3-C anti-submarine warfare aircraft: consequently, the Bush Administration notified Congress on September 12, 2007 of the proposed sale to Taiwan of 12 excess P3-C planes.<sup>47</sup>

**Corruption Scandals in the Chen Administration.** Corruption scandals and controversial political decisions have plagued the Chen Administration since 2006, 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. Some opinion polls have suggested that a majority of Taiwan citizens feel the president should step down before his term ends in 2008.<sup>48</sup>

**Changing PRC Political Pressure on Taiwan.** In the aftermath of the March 2005 passage of a heavy-handed anti-secession law aimed at Taiwan, PRC officials appear to have decided that a Taiwan policy of greater nuance and finesse

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<sup>45</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>46</sup> Speaking in San Diego on September 20, 2005, Edward Ross, a senior U.S. Pentagon official with the Defense Security Cooperation Agency, said it is reasonable to question U.S. defense commitments to Taiwan "if Taiwan is not willing to properly invest in its own self-defense." *Xinhua Financial Network*, September 21, 2005, English. See also CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

<sup>47</sup> On the same day, the Administration also notified Congress of the proposed sale to Taiwan of SM-2 Block IIIA STANDARD missiles.

<sup>48</sup> On June 18, 2006, for instance, a poll by *The China Times* revealed that 53% of respondents believed Chen should step down. See also CRS Report RL33684, *Taiwan-U.S. Political Relations: New Strains and Changes*, by Kerry Dumbaugh.

may be of more service to mainland policy interests.<sup>49</sup> More recently, then, Beijing officials have taken a series of actions designed to increase pressure on the Chen government to be more accommodating to mainland concerns. While some China-watchers describe these measures as positive developments for cross-strait relations, others see 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>50</sup>

Among other measures, Chinese leaders have issued a series of invitations to key political leaders in the KMT, the People First Party (PFP), and other Taiwan opposition parties — but not to the elected government — to visit China and hold talks. U.S. officials are concerned about the motivations of the visits (which one U.S. Government official termed “not benign on either side”) and have stressed that PRC officials should be speaking with the democratically elected Taiwan government.

**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>51</sup> But while official talks have flagged, indirect ties and unofficial contacts have continued and have seen significant recent breakthroughs. Taiwan businesses are increasingly invested across the strait, although the exact figures remain unclear. Taiwan-China trade has also increased dramatically over the past decade, so that China now has surpassed the United States as Taiwan's most important trading partner. According to China's official news agency, Taiwan's total bilateral trade with the PRC is likely to be more than U.S.\$110 billion in 2007 — a 13% increase over 2006.<sup>52</sup>

This increasing economic interconnectedness with the PRC has put pressure on Taiwan's DPP government to further accommodate the Taiwan business community by easing restrictions on direct travel and investment to the PRC. On January 16, 2007, Taiwan and China announced that 96 non-stop, round-trip charter flights would be authorized between the two land masses during the upcoming Lunar New Year from February 13-26, 2007. In 2007, 48 flights were permitted for each side as

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<sup>49</sup> The PRC adopted the anti-secession law on March 14, 2005. Article 8 specifically authorizes the state to employ “non-peaceful means” to reunify Taiwan. See CRS Report RL32804, *China-U.S. Relations in the 109<sup>th</sup> Congress*, by Kerry Dumbaugh.

<sup>50</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>51</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>52</sup> According to a Vice Minister of Commerce, cited by *AP* in “China's trade with Taiwan up 13 percent,” September 20, 2007.

opposed to 36 for each side in 2006. Destinations in 2007 include Beijing, Shanghai, Guangzhou, and Xiamen in the PRC, and Taoyuan and Kaohsiung in Taiwan. Such cross-strait accommodations remain 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>53</sup> Thus, each Taiwan government decision to facilitate economic and transportation links with the PRC represents an uneasy political compromise.

## China's Growing Global Reach

Many observers now focus on the critical implications China's economic growth and increasing international engagement could have for U.S. economic and strategic interests. To feed its voracious appetite for resources, capital, and technology, China has steadily and successfully sought trade agreements, oil and gas contracts, scientific and technological cooperation, and multilateral security arrangements with countries both around its periphery and around the world. Dubbed the "charm offensive" by some observers, China's growing international economic engagement has gone hand-in-hand with expanding political influence. Although some believe that PRC officials appear more comfortable working with undemocratic or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance to date has been unparalleled and unquestioned. A brief survey of China's recent international engagement hints at the potential for increasing Sino-U.S. competition for resources, power, and influence around the world.

**Asia.** China's improved relationships with its regional neighbors are particularly visible. In 2005, China took part in the first East Asia Summit (EAS), a fledgling grouping of 16 Asian and Pacific powers including China, 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>54</sup> Russia's President Putin attended as an invited observer.<sup>55</sup> The second EAS meeting, hosted by the Philippines, began on January 15, 2007. The 16 nations reached new agreements to facilitate the eventual formation of a free-trade bloc and in addition signed the Cebu Declaration on East Asian Energy Security, pledging cooperation on developing renewable energy supplies and promoting cuts in greenhouse gas emissions.<sup>56</sup>

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<sup>53</sup> For instance, there are reportedly 300,000 Taiwan citizens now residing and working in Shanghai.

<sup>54</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>55</sup> See CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by Bruce Vaughn.

<sup>56</sup> *BBC News (international version)*, "East Asia stages inaugural summit," December 14, 2005.

For decades prior to the mid-1990s, Sino-ASEAN relations were characterized by recurring clashes over territorial disputes, diplomatic deadlocks, and ASEAN concerns about China's military ambitions and regional economic competitiveness.<sup>57</sup> The 2005 EAS meeting is part of a trend in growing Sino-ASEAN regional cooperation. In addition to being included in 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, the parties started lowering or cancelling tariffs on 7,000 items, with the goal of reaching full mutual free trade by 2010. Largely as a result of this, Sino-ASEAN two-way trade increased to more than \$160 billion in 2006, up 23% from 2005. On January 14, 2007, China and ASEAN signed a new trade agreement on services, considered a major step toward eventual completion of a Sino-ASEAN free trade agreement.<sup>58</sup>

Within ASEAN, China's relations with Burma are unique, as Beijing has provided Rangoon with substantial military, economic, and infrastructure development assistance. According to a reported internal Department of Defense (DOD) document, Beijing is building naval bases in Burma that will give China its only access to the Indian Ocean.<sup>59</sup> These close relations are one explanation the PRC on January 12, 2007, vetoed a U.S.-sponsored U.N. Security Council resolution criticizing Burma's human rights record.<sup>60</sup>

China has also improved its bilateral relationship with India, with which it fought several border wars in the 1960s, and with Central Asia. On January 24, 2005, China and India began a "strategic dialogue," discussing terrorism, resource competition, and the U.S. role in Asia.<sup>61</sup> The two countries have named 2007 as the "China-India year of friendship through tourism," and the China National Tourism Administration (CNTA) opened an office in New Delhi on August 20, 2007. With the Central Asian countries of the former Soviet Union, China has pursued both economic and security arrangements through the Shanghai Cooperation Organization (SCO), founded in 2001.<sup>62</sup> Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers. China also has negotiated energy deals with Australia, another U.S. regional ally, to supply liquid natural gas to southern China, and is continuing to explore a Sino-Australian free trade agreement. China's growing regional and global

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<sup>57</sup> For background, see CRS Report RL31183, *China's Maritime Territorial Claims: Implications for U.S. Interests*, coordinated by Kerry Dumbaugh.

<sup>58</sup> See CRS Report RL32688, *China-Southeast Asian Relations: Trends, Issues, and Implications for the United States*, by Bruce Vaughn and Wayne Morrison.

<sup>59</sup> The internal DOD report was cited by a *Washington Times* reporter. Gertz, Bill, "China Builds up Strategic Sea Lanes," *Washington Times*, January 18, 2005.

<sup>60</sup> The veto was only the fifth that Beijing has exercised in the U.N. Security Council.

<sup>61</sup> For more, see the "China" section of CRS Report RL33529, *India-U.S. Relations*, by Alan Kronstadt.

<sup>62</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.

importance to Australia has generated a backlash there against what is perceived as an increasingly hard-line U.S. policy stance toward China.<sup>63</sup>

**Japan.** Japan, considered the most important American ally in Asia, has been an exception to China's regional diplomatic achievements. China routinely protested former Japanese Prime Minister Koizumi's annual visits to the Yasukuni Shrine, where war criminals are also enshrined. After 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. The visit to China of Japan's new Prime Minister, Shinzo Abe, on October 8, 2006, signaled a thaw in Sino-Japanese relations, although Abe's resignation on September 12, 2007 has left the future of this thaw in some doubt. From April 11-13, 2007, PRC Premier Wen Jiabao made an official visit to Japan, where the two sides pledged to build "a mutually beneficial relationship based on common strategic interests" and to enhance cooperation on environmental issues.<sup>64</sup>

As with other Asian countries, China's trading relations with Japan have expanded; in 2004, China (including Hong Kong) surpassed the United States as Japan's largest trading partner,<sup>65</sup> but the political relationship remains hampered by the residual resentments of Japan's conquest and occupation of China during World War II. Furthermore, China's growing economic competitiveness and expanding regional presence have helped exacerbate its relations with Tokyo. China and Japan have competed ferociously for access to Siberian oil, with each vying to be the major winner in a pipeline contract with Russia. As a result of China's exploration activities in the Chunxiao Gas Field, in waters where Japan and Taiwan also have territorial claims, Tokyo has begun its own exploration activities in and around the Senkakus. Tensions also have escalated over China's oil explorations in areas of the South China Sea over which Japan also claims sovereignty. Finally, many Chinese leaders remain suspicious of Japan's recent attempts to become a more "normal nation" by becoming more diplomatically assertive and by expanding its military capabilities. Some in Beijing have criticized the Bush Administration for supporting or even encouraging these trends in Japan.<sup>66</sup>

**Russia.** Energy resources and security issues also factor heavily into China's relations with Russia, where as noted above Beijing and Tokyo are in an ongoing competition for Siberian oil access. In March 2006, Russian President Vladimir

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<sup>63</sup> See CRS Report RL33010, *Australia: Background and U.S. Relations*, by Bruce Vaughn.

<sup>64</sup> "Japan-China Joint Press Statement," from The Ministry of Foreign Affairs of Japan, April 11, 2007 [<http://www.mofa.go.jp/region/asia-paci/china/pv0704/joint.html>] See also CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, coordinated by Emma Chanlett-Avery.

<sup>65</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>66</sup> See CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by Emma Chanlett-Avery.

Putin announced plans to open a gas pipeline to China within five years.<sup>67</sup> President Hu made a three-day official visit to Russia on March 26, 2007, where he attended the opening ceremony of the “Year of China in Russia” and discussed increasing the two countries’ “pragmatic cooperation” and “strategic coordination” in both international and regional affairs.<sup>68</sup>

Russian leaders also meet regularly with PRC leaders through the forum of the Shanghai Cooperation Organization, where Russia is one of the six members. On February 2, 2005, Russia’s President Vladimir Putin and visiting PRC State Councillor Tang Jiaxuan announced that their two countries would begin holding regular security consultations.<sup>69</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.** In recent years, China has 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 ago 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>70</sup> On January 18, 2007, the European Commissioner for External Relations, Benita Ferrero-Waldner, delivered a speech in Beijing entitled “The EU and China: Moving Forward.” On May 28, 2007, these efforts were followed (in Beijing) by the first EU-China Ministerial meeting since the new framework for partnership was unveiled in October 2006.

By the same token, the EU has taken a firmer action overall on a number of economic issues involving China that mirror U.S. economic and trade concerns. At various times in 2007, key EU officials have threatened retaliatory measures against China if Beijing failed to restrain the low-cost exports that are boosting the burgeoning EU trade deficit with China;<sup>71</sup> suggested that the EU may initiate action against China at the World Trade Organization (WTO) if Beijing did not tighten and

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<sup>67</sup> “Russia plans natural gas pipeline to China,” Associated Press, March 21, 2006.

<sup>68</sup> “President Hu hails China-Russia relations before Russia visit,” *People’s Daily Online*, March 26, 2007.

<sup>69</sup> “Russia, China Tighten Security Links,” *China Daily*, February 3, 2005.

<sup>70</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>71</sup> Peter Mandelson, EU trade commissioner, quoted in Bounds, Andrew and McGregor, Richard, “EU trade chief warns China’s surplus is ‘unsustainable.’” *Financial Times* London, June 12, 2007, p. 8.

improve its dismal record at protecting intellectual property rights (IPR);<sup>72</sup> and intimated that if China failed to improve the safety of its product and food exports, the EU would block market access.<sup>73</sup>

**Middle East and Africa.** For years, China has sold missile technology and other sensitive materials to countries of security concern to the United States, such as Iran, Syria, Libya, and Iraq. More recently, China also is becoming a major energy player in the Middle East with some of these same countries. In addition, China's trade with the six Gulf Cooperation Council (GCC) countries has steadily increased in recent years, reportedly reaching \$32 billion in 2005 (although this is still small by comparison with the United States, whose total trade with Saudi Arabia alone in 2005 was approximately \$34 billion).<sup>74</sup>

The PRC's growing relations with Iran are particularly troubling to the Bush Administration, which is seeking to sanction Iran and to use diplomatic pressure to halt its suspected nuclear weapons program. China has opposed efforts to reinforce U.N. Security Council sanctions on Iran, saying such a move would have a negative impact on Chinese economic interests. Chinese negotiators, for instance, were able to sign significant oil deals with Iran in 2004, including a proposal that allows a PRC company develop Iran's Yadavarn oil field in exchange for China's agreeing to buy Iranian liquified natural gas.<sup>75</sup> According to a statement by Iran's Interior Minister, on September 14, 2007, Sino-Iran energy cooperation is on track, and two-way trade is expected to reach US \$20 billion in 2007.

The PRC also has placed a premium on its relations in Africa, with President Hu Jintao having embarked on his third trip to Africa in three years on January 30, 2007.<sup>76</sup> PRC relations with Sudan have been especially problematic for the United States and other western countries, which have placed increasing pressure on Beijing to influence the Sudanese government to do more to resolve the humanitarian crisis in Darfur. Beijing has vowed to use its U.N. Security Council position to block stronger U.N. sanctions on Sudan, but Chinese leaders say they have raised the issue of Darfur with the Sudanese government (a statement made by President Hu again during his January-February 2007 trip). But Beijing also has appointed a special envoy to Darfur ( Liu Guijin) and has pledged to send a 315-member detachment of

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<sup>72</sup> "EU's Mandelson threatens WTO action against China over piracy," June 20, 2007; for full text, see [<http://www.eubusiness.com/Trade/wto-china-eu.79/>]

<sup>73</sup> The European consumer protection commission, Meglena Kuneva, on July 25, 2007. Cited by Barboza, David, "China takes striking steps to alter 'unsafe' image," *International Herald Tribune*, July 28, 2007, p. 1.

<sup>74</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>75</sup> Lee, Don, "China Barrels Ahead in Oil Market...," *Los Angeles Times*, November 14, 2004, p. C-1.

<sup>76</sup> President Hu visited South Africa, Sudan, Cameroon, Liberia, Zambia, Namibia, Mozambique, and Seychelles.

engineers to Darfur to assist in peace-keeping operations, suggesting a measure of concern about western objections to Sino-Sudan relations.

In 2000, China and African countries formed the China-Africa Cooperation Forum (CACF), proposing that the CACF meet every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the CACF's first Ministerial Conference in October of that same year; the third CACF meeting was in Beijing in early November 2006. China has also targeted resource-rich African nations such as Sudan and Angola for energy-related development.<sup>77</sup> Senior Chinese leaders in 2004 visited oil-producing states, including Algeria and Gabon, and news reports early in 2005 alleged that a state-owned PRC energy company, China Shine, planned to drill exploratory wells in a Namibian concession that was once held by Occidental Petroleum.<sup>78</sup> China has also shown an interest in iron ore deposits in Liberia and Gabon. In addition to resource-related imperatives, some observers have suggested that there is a political dynamic to China's push into Africa, as 5 of the 24 countries that still maintain official diplomatic relations with Taiwan are on the African continent.<sup>79</sup>

**Western Hemisphere.**<sup>80</sup> There is also a political dynamic in China's expanding economic and trade relationships with Latin America and the Caribbean, where another 12 countries still maintain official diplomatic relations with Taiwan.<sup>81</sup> In addition, China's growing presence in the region also may have political and economic consequences for the United States. In September 2004, China sent a "special police" contingent to Haiti, one of Taiwan's official relationships, marking Beijing's first deployment of forces ever in the Western Hemisphere. On November 18, 2005, Chile, after months of bilateral negotiations, signed the Sino-Chilean Free Trade Agreement (FTA). Beijing officials have said they hope the Sino-Chile FTA will become a model for similar agreements with other Latin American countries.<sup>82</sup>

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<sup>77</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>78</sup> Boxell, James, "Circle Oil in Dollars 50m Africa Drilling Deal with Chinese Group," *Financial Times* (London edition), January 28, 2005, p. 25.

<sup>79</sup> In January 2007, Taiwan maintained official relations with Burkina Faso, Gambia, Malawi, Sao Tome and Principe, and Swaziland. Formerly, Senegal and Chad were two of Taiwan's official relationships; the former announced on October 25, 2005, that it was severing official relations with Taiwan; the latter on August 6, 2006.

<sup>80</sup> See CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh and Mark Sullivan.

<sup>81</sup> Taiwan's official relations in the region include Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines. On January 20, 2005, Grenada formally ended its diplomatic relations with Taiwan and established diplomatic relations with the PRC.

<sup>82</sup> Jiang Wei, "China-Chile FTA Talks Smooth," *China Daily*, January 31, 2005, online at [http://www.bilaterals.org/article.php3?id\_article=1237].

Energy concerns also play a role in China's Latin-American diplomacy, particularly in Venezuela, which now accounts for almost 15% of U.S. oil imports, and in Brazil, with whom China announced a \$10 billion energy deal in November 2004.<sup>83</sup> As a consequence of Venezuelan President Hugo Chavez's visit to Beijing in December 2004 and PRC Vice-President Zeng Qinghong's visit to Venezuela in January 2005, the two countries reportedly signed a series of agreements that committed the China National Petroleum Corporation to spend over \$400 million to develop Venezuelan oil and gas reserves.<sup>84</sup> Given the current poor state of U.S.-Venezuelan relations under the Chavez government, some American observers worry that Venezuelan energy agreements with China ultimately may serve to divert oil from the United States.

Chinese economic and energy concerns extend also to Canada. On January 20, 2005, at the conclusion of Canadian Prime Minister Paul Martin's visit to China, the two governments signed a series of agreements to promote international cooperation on a range of issues and to make energy issues in particular — including gas, nuclear, clean energy, and oil sources, primarily massive “oil sands” in Alberta — into “priority areas” of mutual cooperation. Energy discussions are to be maintained through the Canada-China Joint Working Group on Energy Cooperation, formed under a 2001 memorandum of understanding. A major Canadian oil-pipeline company, Enbridge, is said to be planning a major (\$2.2 billion) pipeline project to transport oil from Alberta's oil-sands deposits to the west coast for shipment to wider markets including China.<sup>85</sup>

## China and Environmental Issues

China's economic development and need for greater energy resources also is having a rapidly increasing impact on the environment, both within China and for its regional and global neighbors. Although China alone has been the source of 40% of the world's oil demand growth since 2000,<sup>86</sup> its continued heavy dependence on soft coal in recent years has made it second only to the United States as the largest contributor to global carbon-dioxide (CO<sub>2</sub>) emissions, with *Reuters* reporting on June 20, 2007, that China had surpassed the United States in CO<sub>2</sub> emissions.

According to the U.S. Department of Energy, carbon emissions related to China's energy use more than doubled between 1980 and 2003, an increase that has had a corresponding impact on air quality, agriculture, human health, and climate change. PRC leaders have recognized that this trend is not sustainable and have

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<sup>83</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>84</sup> Bajpae, Chietigi “China's Quest for Energy Security,” *Power and Interest News Report*, February 25, 2005, online at [<http://www.pinr.com/>].

<sup>85</sup> Mortished, Carl, “Chinese Chase Canadian Oil,” *The Times* (London), March 5, 2005, p. 36.

<sup>86</sup> CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by Emma Chanlett-Avery.

undertaken efforts to address environmental quality, including establishment in 1998 of the State Environmental Protection Administration, adoption of a series of environmental laws and regulations, and mandatory conversion of many government vehicles to non-polluting liquified petroleum and natural gas.<sup>87</sup> Despite this, PRC efforts to date have been unable to keep up with the extensive and worsening pollution from China's growing economic development.

Beijing's push to meet more of its development needs through the cleaner technology of hydro-power has exacerbated other long-term environmental problems in China. To generate electric power, the government has launched massive dam construction projects, continuing a phenomenon that occurred throughout centuries of Chinese history to tame recurring floods.<sup>88</sup> Projects such as the Three Gorges Dam, now being built on the Yangtze River, have been criticized heavily by environmental scientists who blame these and other such constructions for significantly contributing to the country's worsening desertification and flood damage woes. Moreover, since some of the region's most significant rivers originate in the mountains of Tibet, China's hydro-power development programs are increasingly affecting its neighbors. China began multiple dam construction on the upper Mekong River in Yunnan Province with little thought to the resulting impact on Burma, Thailand, Laos, Cambodia, and Vietnam, the dams' downstream neighbors. Other important regional rivers originating in Tibet include the Brahmaputra (India and Bangladesh); Irrawaddy (Burma); the Indus (Pakistan); and the Salween (Burma and Thailand).

The United States and China engage in energy and environment-related dialogue through the recently established U.S.-China Strategic Economic Dialogue. As an outgrowth of that dialogue, on December 15, 2006, both countries announced that China would become the third country to join the United States in the FutureGen International Partnership, a collaborative effort to reduce carbon emissions. The two countries also signed an Energy Efficiency and Renewable Energy Protocol, an effort to promote clean, renewable energy technology.

## Domestic Political Issues

Despite China's rapid economic advances and its expanded international influence, its internal political and institutional development have not kept comparable pace. Increasing social and economic inequities have hobbled the growth of civil society and have led to growing strains in China's political and societal fabric — between the central government in Beijing and the provincial and municipal governments in the interior; between the socialist left and the increasingly capitalist right; between those arguing for economic growth at all costs and those advocating more sustainable and equitable development; and between the few newly wealthy

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<sup>87</sup> "China: Environmental Issues," in *Country Analysis Briefs*, Energy Information Administration, U.S. Department of Energy, published in July 2003. [<http://www.eia.doe.gov/emeu/cabs/China/Environment.html>]

<sup>88</sup> According to Jasper Becker in a series of environmental articles in the *Asia Times*, China is home to 22,104 dams, compared to 6,390 in the United States and 4,000 in India. Becker, Jasper, "Peasants bear the brunt of China's energy plans," *Asia Times Online*, 2003.

who have thrived under economic liberalism and the many desperately poor who have not. Leaders in Beijing are thought to be deeply concerned about the political and social implications of these internal strains and deficiencies, and increasing debate on and maneuvering around these issues is likely to continue affecting the political environment leading up to a key five-year Communist Party Congress being held in Beijing beginning October 15, 2007.

**Social Stability.** The far-reaching economic changes the PRC continues to undergo have led to increasing disgruntlement among a number of social groups.<sup>89</sup> Peasants and farmers in rapidly developing parts of China have labored under heavy tax burdens and fallen farther behind their urban contemporaries in income. Some have had their farmland confiscated by local government and Party officials. Officials then sell the confiscated land for development, often reportedly offering little or no compensation to the peasants from which the land was seized, resulting in sometimes sizable protests. One widely publicized case occurred on December 6, 2005, in the southern Chinese city of Dongzhou (Shanwei), when paramilitary forces opened fire on villagers demonstrating against the confiscation of their land for the construction of a new power plant, killing an unknown number of villagers.

In an effort to address rising rural complaints, the government early in 2005 proposed a new measure, the “2005 Number 1 Document,” to reduce taxes on rural peasants, increase farm subsidies, and address the widening income gap between urban and rural residents. Rising labor unrest, particularly in northern and interior cities, is another particularly troubling issue for Beijing, a regime founded on communist-inspired notions of a workers’ paradise. Increasing labor unrest also has placed greater pressure on the authority and credibility of the All-China Federation of Trade Unions (ACFTU), China’s only legal labor organization.<sup>90</sup>

**Key Party and Government Meetings in 2007.** American China-watchers are watching two important policy-related meetings in China in 2007 for clues as to future PRC policies and actions. The first is the annual meeting of the National People’s Congress (NPC), the approximately 3,000-member PRC legislature, which was held in Beijing from March 5-16, 2007. Although the NPC theoretically is China’s highest authoritative law-making body, in practice it routinely endorses policy decisions and laws already made by elite leadership groups. Still, for outside observers, it sheds light on the kinds of political struggles going on in China.

The most controversial item the 2007 NPC meeting considered was a new law designed to ensure personal property rights — which some in China consider a betrayal of socialism. Debate on the new law has reflected the ideological struggles between China’s right and left and between the economy’s winners and losers. Under discussion for some years (the leadership published a draft for discussion in 2005 — an unusual step for China’s secretive processes), the proposed law was

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<sup>89</sup> See CRS Report RL33416, *Social Unrest in China*, by Thomas Lum.

<sup>90</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.

pulled from consideration at the 2006 NPC meeting because of the controversy it engendered.<sup>91</sup>

This and other issues discussed at the NPC meeting will in turn be reflected in the second and more important of China's 2007 meetings: the all-important Communist Party Congress, held every five years. The 17<sup>th</sup> Party Congress, scheduled to begin October 15, 2007, will be the first under the new leadership team of Party Secretary Hu Jintao and Premier Wen Jiabao, both of whom are expected to keep their posts. Decisions and actions taken at the 17<sup>th</sup> Congress will set the Party's course for the next five years and likely will result in a significant Party leadership reshuffling.

**Tibet.** The political and cultural status of Tibet remains a difficult issue in U.S.-China relations and a matter of debate among U.S. policymakers. Controversy continues over Tibet's current political status as part of China, the role of the Dalai Lama and his Tibetan government-in-exile, and the impact of Chinese control on Tibetan culture and religious traditions. The U.S. government recognizes Tibet as part of China and has always done so, although some dispute the historical consistency of this U.S. position. But the Dalai Lama, Tibet's exiled spiritual leader, has long had strong supporters in the U.S. Congress who have continued to pressure the White House to protect Tibetan culture and give Tibet greater status in U.S. law. It was largely because of this congressional pressure that in 1997, U.S. officials created the position of Special Coordinator for Tibetan issues, tasked with the specific mission of helping to promote talks between the Dalai Lama and Beijing. The current Special Coordinator — Paula Dobriansky, Under Secretary of State for Global Affairs — is the highest-ranking U.S. official to have held this position.<sup>92</sup>

Although dialogue between the PRC and the Tibetan exile community remains officially stalled, hopes for renewed momentum were raised by a number of unusual developments 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>93</sup> The fifth round of these interactions occurred early in 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 this negotiation, as in past such negotiations, the Dalai Lama's special envoy has acknowledged differences but also had favorable reactions to the talks, saying "Our Chinese counterparts made clear

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<sup>91</sup> A full explanation of the law was given by the Vice Chairman of the NPC Standing Committee on March 8, 2007, and was published by *Xinhua*, translated in FBIS at CPP20070308138002, "Full Text of Wang Zhaoguo's Explanation of PRC draft property law."

<sup>92</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>93</sup> Lodi Gyari gave a news conference about these talks at the National Press Club in Washington, D.C. on November 2, 2005.

their interest in continuing the present process and their firm belief that the obstacles can be overcome through more discussions and engagements.”<sup>94</sup> From June 29-July 5, 2007, Lodi Gyari and another Dalai Lama envoy, Kelsang Gyaltzen, held a sixth round of talks in Beijing. The two envoys’ description of the discussions — that they were “candid and frank” and involved the Tibetan side’s “serious concerns [expressed] in the strongest possible manner” — suggests little progress in the dialogue process.<sup>95</sup> China’s recent statements, and its actions in 2007 to inhibit the Dalai Lama’s visits overseas in Brussels and Australia, are seen to be more confrontational than in recent years.

**Xinjiang’s Ethnic Muslims.** For years, the PRC government also has maintained a repressive crackdown against Tibetans and Muslims, particularly against Uighur “separatists” — those in favor of independence from China — in the Xinjiang-Uighur Autonomous Region in western China. U.S. officials warned after September 11, 2001 that the global anti-terror campaign should not be used to persecute Uighurs or other minorities with political grievances against Beijing. But some believe that the U.S. government made a concession to the PRC on August 26, 2002, when it announced that it was placing one small group in China, the East Turkestan Islamic Movement (ETIM), on the U.S. list of terrorist groups. In early January 2007, PRC officials claimed that the ETIM was the target of a Chinese raid on a suspected terrorism camp in Xinjiang. No details were given, although PRC officials reportedly said that 18 were killed and 17 arrested.<sup>96</sup>

U.S. policies on Uighurs and on terrorism have faced a unique test since it became known that approximately 22 Uighur Muslims were being held by U.S. forces at Guantanamo Bay after having been apprehended during the U.S. strikes against the Taliban in Afghanistan. Some of the Guantanamo prisoners, including two Uighurs were determined by the U.S. government in 2005 to not be “military combatants,” and since then have been pursuing legal action against the United States in an effort to be released.<sup>97</sup> A few of the Uighur prisoners have been released to a refugee center in Albania, the only country that would accept them.<sup>98</sup> According to press reports, other remaining Uighur prisoners were moved in December 2006 to a new high-security Guantanamo facility, where they reportedly are being kept in solitary confinement.<sup>99</sup>

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<sup>94</sup> Statement by Special Envoy Lodi Gyari, released on February 25, 2006.

<sup>95</sup> Kang Lim, Benjamin, “China, Dalai Lama’s envoy to hold dialogue,” Reuters News, May 16, 2007.

<sup>96</sup> “Muslim Terror Raid Finds ‘International’ Ties,” *New York Times*, January 10, 2007, p. 14.

<sup>97</sup> “Two Uighurs held at Guantanamo appeal for high court help,” *Agence France Presse*, January 17, 2006.

<sup>98</sup> Golden, Tim, “Chinese leave Guantanamo for Albanian limbo,” *New York Times*, June 10, 2007, p. 1.

<sup>99</sup> Smith, Jeffrey and Tate, Julie, “Uighurs’ detention conditions condemned,” *The Washington Post*, January 30, 2007, p. A4.

**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 PRC citizens. Beijing has increasingly viewed these new information sources as potential threats to the central government's ability to control information flows, and for several years PRC leaders have attempted to restrict and control the scope of Web content and access.

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>100</sup> Among other things, the regulations prohibits major search engines from posting their own independent commentary on news stories, stipulating that only opinion pieces provided by state-controlled media may be posted; requires internet service providers to record the content, times, and Internet addresses of news information that is published and to provide this information to authorities upon inquiry; and in vague terms prohibits certain kinds of content from being posted, such as content that “undermines state policy” or “disseminates rumors [and] disturbs social order.”<sup>101</sup> The regulations are backed by penalties, including fines, termination of Internet access, and possible imprisonment.

## Human Rights

The Bush Administration generally has favored selective, intense pressure on individual human rights cases and on rule of law issues rather than the broader approach adopted by previous American administrations. 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, for instance, PRC officials 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 (UNCHR) in Geneva from March 14 to April 22, 2005.<sup>102</sup>

There were no such symbolic PRC gestures before President Bush's November 2005 visit to China. Moreover, during his Asia visit, President Bush 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 has been little sign that the U.S. position on human rights has affected PRC policies, although there is growing evidence of increasing social demands within

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<sup>100</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>101</sup> *Ibid.*, Article 19.

<sup>102</sup> In 2006, the UNCHR was replaced by a new 47-member U.N. body, the U.N. Human Rights Council (“the Council”). The United States elected not to run for a seat on the Council on the grounds that the performance of the new body first needed to be evaluated over time.

China for greater accountability, transparency, and responsiveness in government, particularly in cases of official corruption and malfeasance.

**Religious Freedom.** The PRC continues to crack down on unauthorized religious groups and to restrict the freedoms of ethnic communities that seek greater religious autonomy. Much of this repression focuses on what PRC officials have classified as illegal religious “cults” such as the Falun Gong and the Three Grades of Servants Church.<sup>103</sup> Reports about religious freedom in China suggest that state persecution of some religious and spiritual groups will likely continue as long as the Chinese Communist Party (CCP) perceives these groups to be threatening to its political control. However, religions in the PRC have also attracted increasing numbers of adherents as well.

In the China section of its most recent annual *International Religious Freedom Report*, released September 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) continues to require churches to register with the government. Churches that are unregistered, so-called house churches, continue to be technically illegal and often repressed by the government. As in the past, however, treatment of unregistered churches varies widely from locality to locality, with some local officials highly repressive and others surprisingly tolerant.

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

**Family Planning Policies.** Because of allegations of forced abortions and sterilizations in PRC family planning programs, direct and indirect U.S. funding for coercive family planning practices is prohibited in provisions of several U.S. laws. In addition, legislation in recent years has expanded these restrictions to include U.S. funding for international and multilateral family planning programs, such as the U.N. Population Fund (UNFPA), that have programs in China.<sup>104</sup>

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<sup>103</sup> See CRS Report RL33437, *China and Falun Gong*, by Thomas Lum.

<sup>104</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.

While the PRC has maintained its restrictive and at times coercive “one-child” program for several decades, there are growing indications that the government may be re-thinking this policy. Early in 2004, China’s new leadership appointed a task force to study the country’s demographic trends and their implications for economic development. In October 2004, reports surfaced that Beijing was considering at least one proposal to eventually scrap the one-child policy because of currently low PRC birth rates and the economic implications this has for supporting China’s huge aging population. On January 6, 2005, the director of China’s National Population and Family Planning Commission stated that the government intended to modify criminal law to make it illegal to selectively identify and abort female fetuses.<sup>105</sup>

There also is growing evidence that citizens of the PRC are becoming more assertive about their reproductive rights.<sup>106</sup> In mid-May 2007, news accounts reported violent public protests in Guangxi Province (Bobai County) over the “savage implementation” of family planning policies by local authorities, including the retroactive imposition of extraordinarily heavy fines and the confiscation or destruction of household goods and food.<sup>107</sup>

## Hong Kong Governance

China’s Hong Kong Special Administrative Region (HKSAR), a British colony until being returned to Chinese rule in 1997, remains a political work-in-progress under several Sino-British agreements reached concerning the territory’s governance. Promised “a high degree of autonomy” by Beijing — and ultimately universal suffrage and full democracy — Hong Kong functions as an effectively separate system with a certain level of democratization and significantly greater individual and political freedoms than mainland China. But many of Hong Kong’s approximately 6 million residents fault what they see as Beijing’s covert and at times direct intervention in setting a glacial pace for Hong Kong’s democratic reforms.

On March 25, 2007, for instance, Hong Kong’s Executive, Donald Tsang, won a second five-year term to that post in an election in which the only eligible voters were the 795 members of the Hong Kong Election Committee. Pro-democracy activists had argued that Hong Kong was politically mature enough to conduct the election by universal suffrage, but this was refuted by Beijing. Still the 2007 election was the first in which a challenger, Alan Leong, took on the incumbent who was universally seen as Beijing’s choice for the post. In addition, Chief Executive Tsang and Mr. Leong held two public TV debates — again an unprecedented development for Hong Kong.

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

<sup>106</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>107</sup> Reported in *Tung Fang Jih Pao*, May 21, 2007, translated in *FBIS*, FEA20070522158306.

Chief Executive Tsang, generally seen as able and well-respected, 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 "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.

While a pragmatist, Chief Executive Tsang also has been criticized by Hong Kong's democracy activists. As the territory'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>108</sup>

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

Some U.S. observers have become increasingly concerned about China's growing economic and political reach in the world, often referred to as "China's rise," and what it means for global U.S. economic and political interests, U.S.-China

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<sup>108</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, which occurred in 2001.

relations, and concerns for Taiwan's security. Some in this debate believe China's rise is a malign threat that needs to be thwarted; others believe that it is an inevitable phenomenon that needs to be managed. As was the 109<sup>th</sup> Congress before it, the 110<sup>th</sup> Congress is likely to be faced with recurring issues involving this emerging debate and whether U.S. interests would best be served by accommodating China's rise or containing it.

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

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

Others in the American policy debate see less benevolent intentions in China's growing power. PRC leaders, they argue, may be portraying their growth as a "peaceful rise" with no harmful consequences, but actually they are biding their time, simply conforming to many international norms as a strategy while China is still weak. In reality, these proponents say, Beijing seeks at least to erode and at best to

supplant U.S. international power and influence. In conducting their international relations, they maintain, Chinese leaders seek to cause rifts in U.S. alliances, create economic interdependence with U.S. friends, and arm U.S. enemies. Despite the statements of support for the U.S. anti-terrorism campaign, according to this view, the PRC's repeated violations of its nonproliferation commitments have actually contributed to strengthening nations that harbor global terrorists. Furthermore, they maintain that the PRC under its current repressive form of government is inherently a threat to U.S. interests, and that the Chinese political system needs to change dramatically before the United States has any real hope of reaching a constructive relationship with Beijing. From this perspective, U.S. policy should focus on mechanisms to change the PRC from within while remaining vigilant and attempting to contain PRC foreign policy actions and economic relationships around the world where these threaten U.S. interests.

## **Selected Legislation in the 110<sup>th</sup> Congress<sup>109</sup>**

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

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

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

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

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

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

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

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

### **H.Res. 676 (Ros-Lehtinen)**

The measure restates and reinforces Section 3(a) of the Taiwan Relations Act relating to U.S. arms sales to Taiwan, emphasizing that decisions shall be made "based solely" on Taiwan's legitimate defense needs. The bill specifically targeted the Bush Administration's "non-responsiveness" to Taiwan's request to buy F-16C/D fighters. Introduced on September 25, 2007, and referred to the House Foreign

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

Affairs Committee. The Committee held mark-up on September 26, 2007, and agreed to seek the measure's consideration on the suspension calendar.

**H.R. 571 (Tancredo)**

A bill to require that additional tariffs be imposed on products of non-market economies, which the bill specifically defines as including the People's Republic of China. Introduced January 18, 2007. Referred to the House Ways and Means Committee, Subcommittee on Trade.

**H.R. 678 (Holt)**

The National Security Language Act. The bill seeks to expand and improve U.S. foreign language study in "less commonly taught" languages, including Chinese. Introduced January 24, 2007. Referred to House Committees on Education and Labor; Select Intelligence; Armed Services.

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

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

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

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

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

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

**H.R. 1469 (Lantos)**

The Senator Paul Simon Study Abroad Foundation Act of 2007. The bill seeks to enhance the competitiveness and security of the United States by promoting foreign language skills and opportunities for expanded study abroad among U.S. students, particularly specifying "non-traditional" destinations such as the People's Republic of China. The bill establishes, within the U.S. government, a corporation and program to provide grants to American students under the Mutual Education and Cultural Exchange Act of 1961 (22 U.S.C. 2451 et seq). The bill was introduced on June 12, 2007, and was reported by the House Foreign Affairs Committee on May 9, 2007 (H.Rept. 110-138). The House passed the bill by voice vote on the

suspension calendar on June 5, 2007. On June 7, the measure was referred to the Senate Foreign Relations Committee.

**H.R. 1585 (Skelton)**

Section 1244 of the bill expresses the sense of Congress that U.S. war-fighting capabilities are potentially under threat by PRC intentions and urges the Secretary of Defense to expand efforts to develop accurate assessments of PRC military capabilities and intentions. Introduced March 20, 2007, and reported to the House Armed Services Committee. Markup on May 9, 2007, and ordered reported by 58-0 (H.Rept. 110-146). Passed by the House May 17, 2007 (397-27), and received in the Senate on June 4, 2007, which considered the bill for a number of days between June 4 and July 31, 2007, when the bill was returned to the calendar. On September 17, 2007, the bill was put before the Senate by unanimous consent and considered on September 18, 19, and 20.

**H.R. 2942 (Ryan)**

The Currency Reform for Fair Trade Act. To provide for the identification and correction of “fundamentally misaligned” currencies by applying countervailing duties to nonmarket economy countries with currencies so identified. Introduced on June 28, 2007, and referred to the Committees on Ways & Means, Financial Services, and Foreign Affairs.

**H.R. 3221 (Pelosi)**

Renewable Energy and Energy Conservation Tax Act of 2007. The bill authorizes the Secretary of Commerce to take efforts to promote U.S. clean energy technology exports to India, China, and other countries that may benefit. Introduced July 30, 2007, and referred to multiple committees. On August 3, the Rules Committee made the bill in order for consideration in the House, where it passed on August 4, 2007, by a vote of 241-172. The bill was placed on the Senate calendar on September 5, 2007.

**H.R. 3272 (Kirk)**

The U.S.-China Diplomatic Expansion Act. The bill provides for increased funding and support for diplomatic engagement with China. Introduced on August 1, 2007, and referred to the House Committee on Foreign Affairs.

**H.R. 3273 (Larsen)**

The U.S.-China Market Engagement and Export Promotion Act. The bill provides for grants to states to operate state offices in China in order to assist U.S. exporters to promote exports to China. Introduced on August 1, 2007, and referred to the House Foreign Affairs Committee.

**H.R. 3274 (Israel)**

The U.S.-China Energy Cooperation Act. The bill provides for grants to encourage U.S.-China cooperation on joint research, development, or commercialization of carbon capture and sequestration technology, improved energy efficiency, or renewable energy sources. Introduced on August 1, 2007, and referred to the House Science and Technology Committee, Subcommittee on Energy and Environment.

**H.R. 3275 (Davis)**

The U.S.-China Language Engagement Act. The bill supports programs offering instruction in Chinese language and culture. Introduced on August 1, 2007, and referred to the House Committee on Education and Labor, Subcommittee on Early Childhood, Elementary, and Secondary Education.

**H.Res. 422 (Lee)/S.Res. 203 (Menendez)**

Calling on the PRC to use its leverage with Sudan to stop the violence in Darfur and to comply with U.N. directives. The measure states that the spirit of the Olympics is incompatible with acts supporting genocide. The House bill was introduced on May 21, 2007, and referred to the House Foreign Affairs Committee, which held markup on May 23, 2007. On June 5, 2007, the House passed the measure on the suspension calendar by 410-0. The Senate bill was introduced on May 16 and referred to the Senate Foreign Relations Committee, which ordered the measure reported with an amendment in the nature of a substitute on June 27, 2007. The Senate agreed to the measure on July 30, 2007.

**S. 796 (Bunning)**

The Fair Currency Act of 2007. (Related House bill H.R. 782.) The bill amends Title VII of the Tariff Act of 1930 to provide that exchange-rate misalignment by any foreign nation is a countervailable export subsidy and to amend the Exchange Rates and International Economic Policy Coordination Act of 1988 to clarify the definition of “manipulation” with respect to currency. Introduced March 7, 2007. Referred to the Senate Finance Committee.

**S. 1607 (Baucus, Schumer, Graham, Grassley)**

The Currency Exchange Rate Oversight Reform Act of 2007. The bill provides for identification and corrective action against “misaligned currencies” that adversely affect U.S. interests. The bill requires the Secretary of the Treasury to submit a report to Congress twice annually analyzing economic and monetary policies of major U.S. trading partners and list currencies judged to be “fundamentally misaligned” (meaning with a prolonged undervaluation with respect to the U.S. dollar) and a list of currencies designated for “priority action.” The bill provides for remedies should a country continue its currency misalignment, including price adjustments under the anti-dumping law; request for IMF action; suspension of new OPIC financing; U.S. opposition to multilateral bank financing; and action in the WTO. The bill permits the President to waive its provisions based on national security or “vital economic” interests. Introduced on June 13, 2007, by Senators Charles Schumer, Lindsey Graham, Max Baucus, and Charles Grassley, the bill was referred to the Senate Finance Committee. The Committee reported the bill on July 31, 2007, with an amendment in the nature of a substitute, and the bill was placed on the Senate calendar.

**S. 1677 (Dodd)**

The Currency Reform and Financial Markets Access Act of 2007. Introduced on June 21, 2007, the bill would require the U.S. Treasury Secretary to analyze exchange rate policies of foreign countries on an annual basis. On August 1, 2007, the Committee ordered the measure reported with an amendment in the nature of a substitute.

## Chronology

- 09/19/07** — For the 15<sup>th</sup> consecutive year, a U.N. General Assembly Committee (the General Committee) rejected the recommendation that Taiwan’s formal application for U.N. membership be considered at this year’s meeting of (the 62<sup>nd</sup>) General Assembly.
- 09/17/07** — DPP Chairman Yu Shyi-kun announced he would offer a motion to the DPP’s newly drafted “normal country” resolution to change Taiwan’s official title to “Taiwan to reflect formally that Taiwan is an independent country.
- 09/17/07** — China announced it will send a 315-member engineering unit to Darfur in October 2007 as part of a combined UN-African Union force of 26,000.
- 09/17/07** — The *Financial Times* reported that China had rejected shipments of U.S. and Canadian port because they contained the additive ractopamine, a banned substance in China.
- 09/17/07** — Former Senator Bob Dole wrote in the *Asian WStJ* of his support for Taiwan’s application for UN membership.
- 09/16/07** — China’s Taiwan Affairs Office said that Beijing had “made necessary preparations” to “deal with serious conditions” as a result of Taiwan’s UN membership bid.
- 09/15/07** — Taiwan President Chen Shui-bian reiterated to a Taiwan audience (and, on September 6, an audience at AEI by video conference) his “yi bian, yi guo” assertion — not heard publicly from him since September 2006.
- 09/15/07** — *New York Times* researcher Zhao Yan was released from prison after serving a three-year sentence for accepting money from a source, a charge he denies. He was arrested originally for “leaking state secrets.”
- 09/12/07** — The Pentagon announced \$2.2 billion in possible military sales to Taiwan, including 12 surplus Orion P3-C maritime patrol craft and 144 SM-2 Block 3A Standard anti-aircraft missiles, built by Raytheon.
- 09/10/07** — Taiwan Defense Minister Ko Cheng-heng said that Taiwan had an “urgent and legitimate need” to buy F-16s. Minister Ko made the statement while attending the Sixth U.S.-Taiwan Defense Industry Conference in the United States.
- 08/17/07** — The PRC published a white paper entitled “The Quality and Safety of Food in China.”

- 08/15/07** — PRC Embassy officials in Washington held a rare news conference to defend the quality of Chinese imports.
- 08/14/07** — Mattel announced that it was recalling 436,000 Chinese-made toy cars and 18.2 million other toys because of magnets that could become dislodged and harm children if swallowed.
- 08/01/07** — The Senate Committee on Banking, Housing, and Urban Affairs ordered S. 1677, the Currency Reform and Financial Markets Access Act of 2007 (Dodd) reported favorably with an amendment in the nature of a substitute. It passed by a vote of 17-4.
- 07/25/07** — The IMF released its 2007 projections, concluding that China had now surpassed the United States as the main engine of the world's economic growth.
- 07/23/07** — According to the *Washington Times*, Beijing has warned Pakistan to improve security for Chinese residents.
- 07/16/07** — The Chinese government announced that only six low-level Party and government figures were being prosecuted for the “brick kilns” slave labor scandal in Shanxi Province, provoking widespread criticism that the scandal most certainly was wider and more insidious, justifying harsher and broader punishments.
- 07/11/07** — Beijing shut down the China Development Brief, an online newsletter tracking environmental and social issues for NGOs that had been operating for years in China.
- 07/10/07** — The PRC's Customs Bureau released trade figures showing that its trade surplus with the rest of the world jumped in June to a record \$26.9 billion for the month — almost double that of June 2006.
- 07/10/07** — China announced it had executed Zheng Xiaoyu, the former head of the State Food and Drug Administration, for accepting bribes to approve tainted or fraudulent drugs.
- 06/28/07** — The US FDA issued an import alert requiring 5 types of farm-raised seafood from China to be tested for banned antibiotics before allowing entry.
- 06/20/07** — *Reuters* reported that China had overtaken the U.S. as the world's top emitter of carbon gases.
- 06/20/07** — The U.S.-China Senior Dialogue began, hosted by Deputy Secretary John Negroponte at the State Department in Washington, with Dai Bingguo in the PRC interlocutor role.
- 06/19/07** — In a State Department press briefing, Sean McCormack reacted to a question about Taiwan, saying, “We do not support Taiwan's

membership in international organizations that require statehood [for membership].... The United States opposes any initiative that appears designed to change Taiwan's status unilaterally. This would include a referendum on whether or apply to the United Nations under Taiwan.”

- 06/13/07** — The U.S. Treasury Department released a mandated, semi-annual report to Congress on international exchange rates, concluding that China “did not meet the technical requirements for designation” [as a currency manipulator] under U.S. law. Legislation was introduced in the Senate (S. 1607) to pressure the Administration to take stronger action against PRC currency restrictions.
- 06/06/07** — Costa Rica announced it was breaking relations with Taiwan and establishing relations with the PRC.
- 05/31/07** — In the second such case this year (the first was on March 30), the Commerce Department announced it was imposing additional preliminary duties — as much as 99.7% — on imports of glossy paper made in China.
- 05/25/07** — The Pentagon released its annual report on PRC military power, sparking a strong protest from officials in Beijing over the report's negative cast.
- 05/23/07** — Two days of talks began in Washington in the second meeting of the U.S.-China Strategic Economic Dialogue (SED) on the U.S.-China trade imbalance and China's currency valuation.
- 05/09/07** — 108 members of the House sent a letter to PRC President Hu Jintao requesting that China use its influence with Sudan to try to halt the genocide in Darfur, linking failure to act with a tarnishing of the PRC image at the 2008 Olympics in Beijing.
- 05/09/07** — Senator Richard Durbin and Representative Rosa DeLauro announced they had secured agreement from PRC Ambassador Zhou Wenzhong to seek bilateral cooperation on food safety inspections.
- 05/05/07** — China announced it was severing diplomatic relations with St. Lucia after the Caribbean country normalized relations with Taiwan.
- 04/02/07** — The U.S. FDA blocked wheat gluten imports from Xuzhou Anying Biologic Technology Development in Wangdien, China, as a result of recent pet deaths in the U.S. from tainted pet food.
- 03/28/07** — China and Russia signed \$4.3 billion in trade deals during President Hu Jintao's visit.
- 03/27/07** — A Chinese-born U.S. engineer, Chi Mak, went on trial in Los Angeles for allegedly providing sensitive Navy weapons technology to China.

- 03/08/07** — In his nomination hearing (for top U.S. military commander in the Pacific) before the Senate Armed Services Committee, Admiral Timothy Keating said he would seek robust engagement with China's navy.
- 03/07/07** — U.S. Defense Secretary Robert Gates said "I do not see China, at this point, as a strategic adversary of the United States. It's a partner in some respects, it's a competitor in other respects..."
- 02/02/07** — According to a State Department spokesman, the United States will need to "evaluate" future civil space cooperation with China in light of China's January 11, 2007 ASAT test.
- 01/30/07** — President Hu Jintao left for his third trip to Africa in three years: he visited South Africa, Sudan, Cameroon, Liberia, Zambia, Namibia, Mozambique, and Seychelles.
- 01/24/07** — The head of the PRC's National Population and Family Planning Commission reported there were 118 boys born for every 100 girls in China in 2005, which he called "a worsening gender imbalance."
- 01/23/07** — A PRC Foreign Ministry spokesman confirmed that China had fired a missile to destroy one of its orbiting satellites.
- 01/18/07** — Bush Administration officials announced that China had tested its first anti-satellite weapon on January 11, reportedly noting that the U.S. had expressed concern to Beijing about the test.
- 01/17/07** — China and Taiwan agreed to allow 96 round-trip charter flights between the two land masses during the February 13 - 26, 2007 Lunar New Year.
- 01/11/07** — Army Lt. General Michael Mapes relayed DOD concerns to the Senate Intelligence Committee (during its annual threat assessment hearing) that Russia and China have secret space-based weapons development programs.
- 01/10/07** — China announced that its global trade surplus for 2006 was \$177.47 billion — up from \$102 billion in 2005.
- 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.
- 10/14/06** — China voted in favor of a U.N. resolution imposing sanctions on North Korea for its nuclear weapon test.
- 10/09/06** — North Korea conducted a test of a nuclear weapon.

**09/05/06** — Premier Wen Jiabao announced China needs more time to bring its anti-piracy standards to international levels.

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

(For U.S.-PRC visits during the 109<sup>th</sup> Congress, see CRS Report RL32804.)

**August 17, 2007** — U.S. Chairman of the Joint Chiefs Navy Admiral Michael G. Mullen arrived in Beijing for a visit, including stops in Beijing, naval facilities along China's east and northeast coasts, and the naval academy in Dalian.

**July 23, 2007** — Air Force General Paul V. Hester, the U.S. Pacific Air Forces commander, began a five-day visit to China, the first by a senior U.S. military officer to meet primarily with PLAAF officials. His visit included the first visit by an American commander to Jining Air Base, as well as to Jianqiao Air Base.

**May 10, 2007** — New U.S. Pacific forces commander Admiral Timothy J. Keating began his first five-day visit to China as Pacific commander. He took command in his new post on March 26, 2007. He pledged to continue to improve U.S.-China military contacts and exchanges and to intensify joint exercises.

**March 22, 2007** — U.S. Chairman of the Joint Chiefs Marine General Peter Pace arrived in Beijing for a visit, including a trip to Anshan Air Base in the Shenyang Military Region. There, Pace examined a PRC-built Su-27 fighter-bomber.

**March 7, 2007** — U.S. Treasury Secretary Henry Paulson arrived in Beijing for his third official visit in his seven-month tenure as Secretary. His visit purportedly was to discuss with his counterpart, Wu Yi, the second meeting (upcoming in May) of the U.S.-China strategic economic dialogue in the United States. The Secretary reportedly urged China to open its markets more quickly.

**March 3, 2007** — On his first official visit to Asia as Deputy Secretary of State, John Negroponte arrived in Beijing for three days of talks. He met with Foreign Minister Li Zhaoxing, State Councilor Tang Jiaxuan, and vice foreign ministers Dai Bingguo and Yang Jiechi. At the end of his trip, he addressed the 17.8% increase in China's military budget, saying the United States wanted China to clarify its "plans and intentions" for its military program.

**March 2, 2007** — Alan Holmer, new U.S. Special Envoy for Strategic Economic Dialogue with China, met in Beijing with Vice Premier Wu Yi.

**January 23, 2007** — U.S. Assistant Secretary for Commerce Chris Padilla left for Beijing to discuss export controls.

## Appendix II: Selected U.S. Government Reporting Requirements

### **Report on International Economic and Exchange Rate Policies** (*semiannual report*)

*Most recent date available:* June 13, 2007

*Agency:* U.S. Department of the Treasury

*Legislative authority:* P.L. 100-418, the Omnibus Trade & Competitive Act of 1988

*Full text:* [[http://www.ustreas.gov/offices/international-affairs/economic-exchange-rates/pdf/2007\\_FXReport.pdf](http://www.ustreas.gov/offices/international-affairs/economic-exchange-rates/pdf/2007_FXReport.pdf)]

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

*Most recent date available:* September 15, 2006

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

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

*Full text:* [<http://www.state.gov/g/drl/rls/irf/2006/>]

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

*Most recent date available:* May 2007

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

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

*Full text:* [<http://www.uscirf.gov/countries/publications/currentreport/2007annualRpt.pdf#page=1>]

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

*Most recent date available:* March 6, 2007

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

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

*Full text:* [<http://www.state.gov/g/drl/rls/hrrpt/2006/78771.htm>]

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

*Most recent date available:* May 2007

*Agency:* U.S. Department of Defense

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

*Full text:*  
[<http://www.defenselink.mil/pubs/pdfs/070523-China-Military-Power-final.pdf>]

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

*Most recent date available:* January 1 through December 31, 2004

*Agency:* Director of Central Intelligence

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

*Full text:*

[[http://www.dni.gov/reports/2004\\_unclass\\_report\\_to\\_NIC\\_DO\\_16Nov04.pdf](http://www.dni.gov/reports/2004_unclass_report_to_NIC_DO_16Nov04.pdf)]

**International Narcotics Control Strategy Report, 2005** (*annual report*)

*Most recent date available:* March 2007

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

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

*Full text Volume I:* [<http://www.state.gov/documents/organization/81446.pdf>]

*Full text Volume II:* [<http://www.state.gov/documents/organization/81447.pdf>]

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

*Most recent date available:* December 11, 2006

*Agency:* United States Trade Representative

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

*Full text:* [[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2006/asset\\_upload\\_file688\\_10223.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file688_10223.pdf)]

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

*Most recent date available:* April 15, 2005

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

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

*Full text:* [<http://www.state.gov/g/oes/rls/or/44681.htm>]

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

*Most recent date available:* June 2007

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

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

*Full text:* [<http://www.state.gov/p/eap/rls/rpt/2007/88157.htm>]

**Congressional-Executive Commission Report** (*annual report*)

*Most recent date available:* September 20, 2006

*Agency:* Congressional-Executive Commission on China

*Legislative Authority:* P.L. 106-286, Normal Trade Relations with the People’s Republic of China, 2000

*Full text:* [<http://www.cecc.gov/pages/annualRpt/annualRpt06/index.php?PHPSESSID=9377164c288981e42b9a2577054ddf2>]