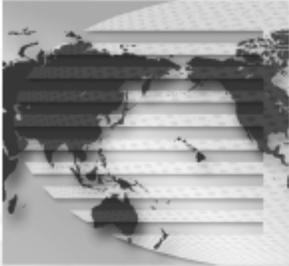




**Asia-Pacific Center for Security Studies**



**SPECIAL ASSESSMENT**

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## **The Asia-Pacific and the United States 2004–2005**

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# **China and the United States 2004–2005: Testy Partnership Faces Taiwan Challenge**

**D E N N Y R O Y**

## **K E Y F I N D I N G S**

- Considering the history of U.S.-PRC relations, the relationship at present is relatively stable and satisfactory to both governments. Relations are unlikely to improve, however, in 2005, having peaked at the end of 2003 and deteriorated slightly in 2004.
- Many intractable areas of bilateral disagreement remain. The most serious of these is the Taiwan issue, which has the potential to ruin Sino-U.S. relations despite the desire of both governments to avoid such an outcome.
- Strategic competition continues to underlie relations between the two Asia-Pacific powers, even in areas of apparent common interest such as counter-terrorism and the North Korean nuclear weapons crisis.
- Deep economic engagement is producing bilateral tensions, particularly on the American side, which complains about rule infractions, lack of protection of intellectual property rights, the under-valuation of the Chinese currency, and China's massive trade surplus with the United States.
- China's human rights record remains an area of contention, with Hong Kong the site of a potential showdown.
- Frustrated by the perception that Taiwan is slipping toward independence, the Chinese government has increased its criticism of U.S. arms sales to Taiwan, arguing that these sales embolden Taiwan separatism and make war more likely.

The war on terrorism made China primarily a strategic partner rather than a potential adversary in the eyes of American observers. China has cooperated significantly with international efforts to thwart terrorist groups and has earned praise for playing a constructive role in attempts to negotiate a peaceful end to the North Korean nuclear weapons crisis. Although some observers point out that China has its own motives for supporting the war on terror, has been unsupportive of the U.S.-led military campaign in Iraq, and takes a different position than Washington on the North Korean problem, Bush administration officials join Beijing in describing the bilateral relationship as mostly cooperative despite areas of disagreement. Absent a conflict over Taiwan or some unforeseen confrontation, the continuing U.S. focus on Iraq will help China retain this status as Washington's partner in the management of international issues over the next year, although the China-U.S. relationship has ample low-level strains.

## STRATEGIC RIVALRY

Managing the political tensions caused by China's emergence as a major power within the shadow of American pre-eminence is an ongoing strategic problem. America sees itself as an honest broker without territorial ambitions that promotes peace, prosperity and democratization in the Asia-Pacific region. For many American observers, China's growing influence is worrisome because of fears China may pursue an agenda that runs counter to American goals and interests. The Chinese are aware of these fears that China is attempting to eclipse U.S. influence globally and especially in Asia and the Pacific. Chinese officials have therefore tried to assure the region that a stronger China will not threaten the legitimate interests of any Asia-Pacific country, including the United States. As an alternative to American pre-eminence in the Asia-Pacific region supported by key U.S. bilateral relationships with regional allies, the Chinese call for enhancing mutual trust between China, the U.S. and other Asian countries through participation in multilateral organizations. This is a clever diplomatic approach, employing the benign rhetoric of common security and multilateral dialogue to advance a framework that, if realized, would weaken America's position in Asia vis-à-vis China.

China believes its interests are better served by a world that is multipolar (with China as one of the great powers) rather than unipolar (with the United States as the dominant power), with major international activities decided consultatively rather than unilaterally. Chinese analysts have expressed hope that the North Korean nuclear weapons crisis and the difficulties encountered in Iraq have helped convinced the Bush administration that it needs the assent and cooperation of important countries such as China.

While characterizing the Sino-U.S. relationship as generally constructive, Beijing maintains plenty of disputes with Washington on specific strategic and political issues. Much of China's discontent on seemingly unrelated issues may be spillover from the Taiwan problem. Chinese media commentary on American foreign policy hardened noticeably during 2004, with revived attacks on alleged American "hegemonism," unilateralism, and hostility toward China. Beijing condemned the U.S. Department of Defense's annual report to Congress on the Chinese military as threat-mongering. In May 2004, China lobbied the United Nations Security Council to place greater restrictions on the American-led military coalition in Iraq. That same month, China said it might abstain

from voting on—or even veto—a U.N. resolution that would protect U.S. personnel serving in U.N.-approved peacekeeping missions from prosecution by the International Criminal Court, ostensibly because of concerns stemming from the Abu Ghraib prison abuse scandal. China's opposition began a movement that resulted in Washington withdrawing the proposed resolution in June. China also opposed the United States on the question of state-sponsored violence in Sudan, arguing that sanctions would only worsen the situation. In the Sudan case, general Chinese antipathy toward sanctions (which they see as “outside interference in domestic affairs”) and American “hegemonism” were perhaps not as important in determining the Chinese position as was the fact that Sudan supplies about one quarter of China's oil imports and China is the largest foreign investor in Sudan's oil industry.

China's growing need for dependable oil supplies gives Beijing a strong motivation to continue to cultivate friendly relations and influence with Saudi Arabia at a time when Washington's relationship with Riyadh is strained. China represents a potential source of arms sales, having supplied the Saudis with missiles in the past, and the China-Saudi relationship is unencumbered by the issues that inject tensions into U.S.-Saudi relations (American support for Israel, Saudi links to terrorism, and the general antipathy of much of the Muslim world toward the United States).

## STRATEGIC COOPERATION

Thus far, both China and the United States have considered the six-party talks on ending North Korea's nuclear program a successful example of bilateral partnership on a matter of common interest. Disharmony, however, is not far below the surface. Beijing has consistently called upon the United States to be more flexible and offer concessions for a North Korean commitment to dismantle its nuclear weapons program. The Chinese have challenged American assertions about how far North Korean bomb-making has progressed and questioned whether Pyongyang is seeking to enrich uranium for weapons purposes, as the U.S. suspects. While China favors de-nuclearization of the Korean Peninsula, Beijing's main goal is stability and its greatest fear is the turmoil and inevitable cost to China that would result from either war or the overthrow of the Kim Jong Il regime. The Chinese have been far more averse than the United States to the notions of regime change or sanctions to force Pyongyang to dismantle its nuclear weapons program. Nuclear weapons in Kim's hands would be a much greater threat to the United States and its allies than to China.

With the 2004 U.S. election campaign finished, Washington will likely take greater interest in a resolution of the North Korean crisis during the next year. This could bring the differences between the U.S. and Chinese positions on North Korea to the fore. China faces a possible dilemma: either succumb to U.S. pressure to go along with measures the Chinese consider too heavy-handed, or risk inciting the Americans into unilateral action that China cannot control and that runs counter to China's interests. The resolution of the North Korean nuclear issue will also have important implications for China's expressed hope that the Six-Party Talks could develop into a permanent framework for Northeast Asia security dialogue. It is far from certain that mutual satisfaction will be the final outcome.

Both governments point to the war on terror as another example of cooperation and binding common interest. China made considerable sacrifices to be recognized as a counter-terrorism ally, such as tolerating a U.S. military presence in Central Asia and the participation of Japanese warships in support of the Afghanistan campaign. Beijing does not miss an opportunity to tout the importance and extent of its contribution, which includes intelligence-sharing and allowing the U.S. to post Customs and FBI officers in China. China has also pledged to carry out a range of counter-terrorism activities such as cutting off funding linked to terror organizations. The positive impact of this partnership, however, is limited by the features of the war on terror that divide Beijing and Washington. Many Chinese believe the anti-terror campaign demonstrates that the U.S. is willing to disregard international law in pursuit of its own national interests, and moreover that the Bush administration's approach has not been very successful in achieving stated U.S. goals such as winning hearts and minds in the Islamic world. Chinese who believe strategic competition still underlies Sino-U.S. relations are highly suspicious that Washington will attempt to use the war on terror as a cloak for activities that are actually intended to increase America's international influence at China's expense.

The Chinese want stronger military-to-military links with the United States. They saw considerable progress in this area in 2004, including a visit to China by Chairman of the Joint Chiefs of Staff General Richard Myers, a port call in Hong Kong by the U.S. Seventh Fleet's command ship *Blue Ridge*, and Defense Consultative Talks in Beijing with a U.S. delegation led by Deputy Under Secretary of Defense Douglas Feith. On the other hand, Beijing is chagrined that the United States not only continues to restrict military sales to China, but has also pressured Israel and the European Union to do likewise.

## ECONOMIC RELATIONS

China hopes to keep political and strategic issues from interfering with a normal and constructive economic relationship with the United States. It looks on with concern as Americans debate whether heavy economic engagement with China is good or bad for the U.S. economy. The PRC stresses the mutual benefits of the relationship, including China's purchase of large amounts of U.S. Treasury bonds to help offset American financial deficits. China is frequently criticized, however, over its massive and growing bilateral trade surplus and over allegations of unfair trade practices and rule violations. A study released in January 2005 by the pro-labor Economic Policy Institute—prepared for the Congressionally-appointed U.S.-China Economic and Security Review Commission—concluded that America had lost 1.5 million jobs since 1989 due to trade with China.

The Bush administration has not been particularly tough on China with regard to trade issues. The White House has withstood pressures to raise duties on Chinese imports and resisted calls from the U.S. International Trade Commission to impose sanctions on China. The Bush administration also withstood domestic demands for an official investigation into allegations that China was deliberately holding down the value of its currency and unfair labor practices in China. Washington, however, has not shrunk from calling out China on perceived violations of trading agreements. U.S. complaints of Chinese dumping continue, and in March 2004 the U.S. government filed its first case

against China with the WTO, charging that Chinese value-added tax policies discriminated against American semiconductor imports. In a December 2004 report to Congress, the Office of the U.S. Trade Representative asserted that China is not in full compliance with the commitments required under its membership in the WTO and that Chinese infringements of intellectual property rights remain a serious problem.

Some U.S. lawmakers complain that Beijing intentionally keeps the *renminbi* (the Chinese currency) undervalued by as much as 40 percent to give Chinese exports an advantage in the international marketplace. The *renminbi* has been effectively pegged to the U.S. dollar since 1995 at the rate of about 8.28 to the dollar. The U.S. government is therefore pressuring Beijing to allow the *renminbi* to appreciate against the dollar. Hints from Beijing indicate the PRC might allow a rise in its currency in 2005 to alleviate this pressure, but analysts say the Chinese authorities would probably only permit a small rise of not more than 10 percent. The Chinese central bank argues that “the country’s current foreign exchange rate system is consistent with its economic development level, its capability in financial regulation, and the ability of Chinese enterprises in dealing with exchange rate fluctuations.” In other words, Beijing fears that a large, sudden change in the value of its currency could lead to a financial crisis within China.

China’s WTO obligations require considerable sacrifice and adjustment, so the Chinese have little sympathy for American complaints that China is getting a free ride. Chinese concessions will largely result from the judgment that it is necessary to assuage American pressure to preserve the influx of wealth and technology. Beijing’s efforts over the next year may well be insufficient to quell persistent American discontent over the trade deficit and the *renminbi*.

## HUMAN RIGHTS

From China’s point of view, the severity of the human rights issue as a problem in U.S.-China relations has declined in recent years. Nevertheless, the constituency interested in promoting human rights in China remains strong in American politics. U.S. criticism of China over protection of civil and political rights will therefore remain an area of bilateral contention for the foreseeable future. Randall G. Shriver, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, told the Congressional Executive Commission on China in June 2004, “As long as we continue to have concerns about human rights and religious freedom, and as long as China is unable or unwilling to address them, we will not realize the full flowering of the U.S.-China relationship.”

Although the Bush administration has not been especially aggressive in challenging China over human rights, the 2003 edition of the U.S. State Department’s annual study *Country Reports on Human Rights Practices*, released in February 2004, alleged that China’s performance in certain areas had worsened. Stung by these criticisms, Beijing now counters with its own report on *The Human Rights Record of the United States*, which charges America with such evils as excessive crime and drug abuse, abuses by police and prison officials, racial and gender discrimination, and high levels of children in poverty. The Chinese press paid considerable attention to a July 2004 incident in which a U.S. border guard beat a Chinese woman tourist near Niagara Falls. The guard, who later faced charges for excessive use of force, said that he mistook the woman for a drug dealer and

that she struggled when he tried to detain her. Chinese media coverage included assertions that the United States is “barbaric,” “racist” and “hegemonic,” suggesting the Chinese authorities sought to make a point not only about human rights, but also to express more general displeasure with U.S. foreign policy.

The situation in Hong Kong remains another bilateral sticking point. The U.S. government maintains that Hong Kong should move toward greater democratization at the pace desired by Hong Kong’s own people. This is clearly not, however, what Beijing has in mind. In 2003, when the PRC-approved government of Tung Chee-hwa proposed anti-subversion laws that threatened to curtail civil liberties in the former British colony, up to half a million protestors filled the streets of Hong Kong. Such large-scale public expressions of political dissent will constitute evidence that Beijing is not meeting U.S. expectations. From China’s standpoint, of course, America’s weighing in on Hong Kong politics is an unjustified intrusion into Chinese domestic affairs.

Human rights will remain an ongoing but manageable irritation. Short of a major incident of state heavy-handedness in China (i.e. something approaching the 1989 Tiananmen crackdown), the issue is not likely to seriously jeopardize the bilateral relationship.

## TAIWAN

A recent editorial from the PRC publication *China Daily* asserted that the relationship has progressed to the point where “it is difficult for any single problem to reverse the overall positive tide of Sino-U.S. relations.” But if there is such a single problem that could ruin the relationship, it is Taiwan. From a high point in December 2003, when President George W. Bush openly cautioned Taiwan President Chen Shui-bian while visiting PRC Premier Wen Jiabao looked on approvingly, Beijing’s satisfaction with U.S. policy toward Taiwan dissipated in 2004.

A disjuncture has developed between Beijing’s and Washington’s views of the Chen administration. U.S. officials have publicly characterized Chen’s May 2004 inaugural address as conciliatory and expressed hope that Beijing would take this opportunity to resume semi-official dialogue with Taiwan. This is completely unrealistic. Chinese analysts saw nothing in Chen’s speech to persuade them that he has given up what they believe is his plan to take important further steps toward formalizing Taiwan’s independence before the end of his presidency in 2008, including re-writing Taiwan’s constitution and asking Taiwan’s people to approve it through a referendum. Beijing is waiting for Taipei to reaffirm the “one China” principle—which holds that Taiwan is an inseparable part of China—before allowing dialogue to resume, and Hu’s government is unlikely to retreat from this position. Chen has already ruled out making one-China a precondition for talks. Neither his inaugural address nor other recent speeches indicate a willingness to give the PRC this key concession.

In China’s view, apparent U.S. efforts to rein in Chen have been unsuccessful, and in any case these efforts are overshadowed by the countervailing effect of American arms sales to Taiwan. China does not accept the premise that a military “balance” across the Taiwan Strait, maintained by supplementing Taiwan’s defenses through foreign supplies, is necessary to preserve peace. The Chinese view, rather, is that a balance emboldens

Taiwan's leaders to move toward independence, thus making war more likely by forcing China to contemplate military intervention. The Chinese argue that the large arms package the Bush administration offers Taiwan is in violation of the U.S.-PRC Joint Communiqué of 1982, which said the U.S. government "intends to reduce gradually its sales of arms to Taiwan." Furthermore, the vigorous debate in Taiwan over the proposed arms package has led many Chinese observers to conclude that the United States is forcing the island to buy these weapons as part of a perceived anti-China agenda.

In September 2004, PRC Vice Foreign Minister Zhou Wenzhong called U.S. arms sales to Taiwan the single biggest obstacle to the further development of Sino-U.S. relations. Several top-ranking Chinese officials have demanded that the U.S. cease arms sales to Taiwan, arguing that they contradict America's stated "one China" policy and its opposition to, or lack of support for, an independent Taiwan (U.S. officials have phrased it both ways, but the Chinese prefer the former, stronger formulation). In an unusual move, in July 2004 a spokesman for the Chinese embassy in Washington called a press conference to express concern that the Bush administration was straying from the "one China" policy and that consequently U.S.-China relations were in jeopardy. As a positive inducement, Jiang Zemin, formerly both PRC president and head of the Central Military Commission, said China would consider moving its missile batteries further away from Taiwan in exchange for a discontinuation of U.S. arms sales to the island.

Many Chinese observers have voiced doubt that the United States has the will to intervene militarily in the Taiwan Strait if there is a serious risk of American casualties. This is bolstered by the perception that the U.S. is preoccupied by its commitments in Iraq and Afghanistan. This dubious belief is one of the potential miscalculations that make the situation more dangerous. Another is the belief of some Americans that the prospect of facing superior U.S. military forces would deter Beijing from launching a war even if Taiwan formally declared independence.

To all appearances, both China and the United States would prefer to avoid a conflict over Taiwan. Hu Jintao's government is prepared to live with a *de facto* independent Taiwan indefinitely as long as Taipei does not move to formally sever the ties that keep open the possibility of eventual unification. Relations between the two Asia-Pacific heavyweights in the next few years may face a severe test if Chen's government follows through with some of its proposals that Beijing considers tantamount to formal Taiwan independence.

## CONCLUSION

Beijing continues to see a constructive working relationship with the United States as crucial to the achievement of China's own developmental goals. From China's standpoint, most U.S. policies and activities in Asia are not worth a confrontation that could seriously damage the bilateral relationship. The one exception is U.S. support for Taiwan, about which the Chinese displayed growing displeasure during 2004. The improvement of U.S.-China relations following the nadir of April 2001 (when a U.S. surveillance aircraft and a Chinese fighter jet collided near Hainan Island) has apparently peaked. While relations remain relatively positive and stable, ongoing disagreements make it unlikely that they will improve in 2005.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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