

CRS Issue Brief for Congress

Received through the CRS Web

China-U.S. Relations

Updated January 9, 2002

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China-U.S. Relations

SUMMARY

In the wake of the September 11, 2001 terrorist attacks against the United States, U.S. and PRC foreign policy calculations appear to be changing. The Administration of George W. Bush assumed office in January 2001 viewing China as a U.S. “strategic competitor.” Administration officials faced an early test in April 2001 when a Chinese jet collided with a U.S. Navy reconnaissance plane over the South China Sea, resulting in strained relations and PRC accusations that U.S. reconnaissance activities were unfriendly acts. Since September 11, though, U.S. officials have come to see Beijing as an important potential ally in the fight against global terrorism, while PRC officials see the anti-terrorism campaign as a chance to improve relations with Washington and perhaps gain policy concessions on issues important to Beijing. U.S. anti-terror priorities have led some to suggest that cooperation against terrorism could serve as a new strategic framework for Sino-U.S. relations.

But there are complexities and pitfalls on this road to cooperation. For one thing, the PRC’s definitions of what constitutes terrorism are significantly more expansive than those of the United States, and include any political expression of independence – both violently and peacefully expressed – by Tibetans, Uighrur Muslims, Taiwanese, and others. Since the United States maintains that the anti-terror campaign must not be used to persecute these groups, Sino-U.S. cooperation already faces limits. Also, U.S. dominance of the anti-terrorism effort has made Washington suddenly appear to be a more threatening competitor for influence in Central Asia, where Beijing had been making successful political inroads in recent years, and in Pakistan, with which Beijing has traditionally close relations.

Moreover, although the anti-terror campaign is likely to overshadow more traditional U.S.-China bilateral problems, it is unlikely to eliminate them. Sensitivities remain over long-standing issues such as China’s abusive record on human rights issues and on accusations that it routinely violates its non-proliferation commitments, increasing the possibility that weapons of mass destruction can fall into the hands of terrorists. The PRC is thought to remain suspicious about the accidental NATO bombing of the Chinese Embassy in Belgrade in 1999, concerned about what they see as an “encircling” U.S. presence in Asia, and wary of U.S. technological advantages and global influence.

U.S. observers also remain mindful of allegations that Beijing was involved in illegal financial contributions to U.S. political campaigns in 1996, and of allegations that PRC nuclear weapons design has profited greatly from secrets stolen from U.S. nuclear research labs. In addition, Taiwan remains the most sensitive and potentially explosive issue in Sino-U.S. relations, with U.S. officials increasingly supportive of Taiwan’s security and its democratization, and PRC officials adamant about reunifying Taiwan with the PRC.

One long-standing bilateral issue that will not be resurfacing is the U.S. debate over China’s normal trade relations (NTR) status. The 106th Congress enacted H.R. 4444 (P.L. 106-286), a law granting the PRC permanent NTR upon its accession to the World Trade Organization (WTO). The PRC formally joined the WTO on December 11, 2001. Future trade debates concerning the PRC are likely to occur within this multilateral framework, over whether or not Beijing is living up to its WTO agreements.



MOST RECENT DEVELOPMENTS

On January 1, 2002, the PRC gained permanent normal trade relations (PNTR) from the United States, meaning that Congress will no longer be faced with annually debating the application of Jackson-Vanik trade provisions to the PRC.

On December 29, 2001, the standing committee of the Ninth National People's Congress (NPC) announced that the NPC's fifth session would begin on March 5, 2002.

On December 12, a PRC Foreign Ministry spokesperson said that any Xinjiang Uighurs captured in Afghanistan should be returned to the PRC to face charges of terrorism. On December 7, General Frank Taylor, the U.S. ambassador-at-large for counter-terrorism, was quoted saying Washington was pleased with the level of cooperation Beijing had offered in the anti-terror campaign, but he also warned that the anti-terror campaign should not be used to persecute Uighur separatists with political grievances against Beijing.

On December 11, 2001, the PRC formally joined the World Trade Organization, thus gaining permanent normal trade relations (PNTR) status from the United States, as enacted in P.L. 106-246. WTO members had voted to approve the PRC's membership in the group on September 17, 2001, and Taiwan's membership on September 18, 2001.

BACKGROUND AND ANALYSIS

Background

Since the early 1990s, U.S.-China relations have followed an uneven course, with modest improvements overshadowed by various recurring difficulties. Among others, bilateral difficulties have included U.S. problems with the PRC's worsening human rights record, growing tensions over Taiwan's status and a PRC southern military build-up opposite Taiwan, continued controversy over allegations of Chinese espionage against the United States, tension over the accidental NATO bombing of the Chinese Embassy in Belgrade in May 1999, the PRC's detention of Chinese American scholars, and the lengthy delay associated with the return of a U.S. navy crew and reconnaissance plane disabled by a collision with a Chinese jet fighter. These problems have occurred against a steady drumbeat of growing mutual suspicion over the perceived security threat that each poses to the other.

Many of these tensions were played out during the Clinton Administration, which had inherited a Sino-U.S. relationship that was already shaky due to repercussions from the Tiananmen Square crackdown. President Clinton was elected in 1992 with a heavy focus on a domestic U.S. economic agenda and less emphasis on a broad or well-articulated foreign policy agenda. When it came to China policy, the early Clinton Administration staked out a position – markedly different from that of its own predecessor, the Administration of George H.W. Bush – that the United States should use its economic leverage to promote democracy in the PRC. In his first year in office, President Clinton announced he would link the PRC's

future most-favored-nation (MFN) trade status with improvements in its human rights policies, and he made political appointments and took other actions that suggested he would pursue a fairly tough policy. This initial approach soon was abandoned, and the following year, Mr. Clinton “de-linked” the PRC’s human rights policies and its MFN status, and began to alter his policy approach.

Like President Bush before him, President Clinton came to favor a policy of “engagement” with China. He generally moved to solidify and improve aspects of Sino-U.S. relations, annually extended the PRC’s MFN status, periodically waived various sanctions, authorized resumption of Sino-U.S. nuclear cooperation and, in 1997, re-initiated high-level summitry with the PRC’s senior leader, Party Secretary Jiang Zemin. In a joint statement issued at that summit, both sides agreed to establish “a constructive strategic partnership.”

U.S. critics of these policies charged that the PRC continued to violate its non-proliferation commitments and its pledges on human rights. Some of these critics described the PRC as America’s principal threat, and they increasingly objected to the overall U.S. policy of “engagement” with the PRC pursued by successive U.S. Administrations. Responding to these criticisms, the George W. Bush Administration assumed office in January 2001 promising a tougher approach and describing the PRC as a “strategic competitor” of the United States. Bush Administration officials indicated they would broaden the focus of American policy in Asia, concentrating more on Japan and other U.S. allies and de-emphasizing Sino-U.S. relations. From the PRC’s perspective, key issues in bilateral relations included what they have seen as overly protective U.S. relations with Taiwan, excessive U.S. involvement in Asian regional affairs, and an intrusive human rights policy they believe is designed to destabilize the government in Beijing.

The September 11 terrorist attacks against the World Trade Center, the Pentagon, and in rural Pennsylvania appear to have altered the policy calculus for both Washington and Beijing. Bush Administration officials now see the potential for Sino-U.S. cooperation against global terrorism as an important priority, and they have down-played the key differences and other problems in the relationship evident during the first half of 2001. U.S. officials have sought PRC support with countries in the region and in initiatives put before the United Nations Security Council, where the PRC is a permanent member. Beijing, for its part, appears to see the U.S. anti-terrorism effort as a chance to improve Sino-U.S. relations and demonstrate that China can be a responsible global player. PRC leaders have offered to share intelligence and take other steps to cooperate with the U.S. initiative. But they may also see current U.S. policy priorities as an opportunity to gain U.S. concessions on Taiwan, Tibet, and other issues of importance to the PRC.

PRC Response To U.S. Anti-Terrorism Initiatives

The PRC itself has been the target of bombings, sabotage, and other terrorist attacks, primarily thought to be committed by small groups of Muslim extremists (largely Uighurs) based in Xinjiang, in China’s far northwest. For years there have been unconfirmed reports that some Muslim activists may, in fact, be based in Afghanistan, receiving training from the Taliban – reports that appeared to gain more credence late in 2001 when it was revealed that a number of Uighurs from Xinjiang had been captured in Afghanistan. PRC officials also have strong connections to and influence with Pakistan, which in the past had aided the Taliban

government and is now a key country for the U.S.-led anti-terrorism coalition. In addition, in 1996, the PRC took the lead in establishing what is now the Shanghai Cooperative Organization (SCO), a six-member consortium involving the PRC, Russia, and the Muslim countries of Uzbekistan, Tajikistan, Kazakstan, and Kyrgyzstan. Part of the group's stated goal is to curb fundamentalist terrorist activities in the region.

Still, despite these common interests, it is not yet clear how much actual support the PRC ultimately will give the U.S.-led effort. Early signs were encouraging. In a message to President Bush on September 11, 2001, PRC President Jiang Zemin condemned the terrorist attacks and offered condolences. According to the White House, in a phone call with President Bush the following day, Jiang promised to cooperate with the United States to combat terrorism. The PRC also voted with others in the U.N. Security Council for Resolution 1368 (2001), which among other things "unequivocally" condemned the terrorist attacks and expressed its "readiness to take all necessary steps to respond to the terrorist attacks." On September 14, the prime ministers of the SCO issued a statement saying the attacks were "a challenge to the fundamental principles of human civilization." On September 20, Party Secretary Jiang Zemin declared that the PRC offered "unconditional support" in the anti-terrorism campaign, and the PRC's foreign minister, Tang Jiaxuan, reportedly assured President Bush late in September that Beijing would share intelligence with the United States. On September 24, 2001, a group of counter-terrorism experts from the PRC arrived for meetings with their counterparts in Washington.

Still, the PRC has also sent mixed signals about its support for the anti-terrorism campaign. Strong statements about unconditional support have been qualified by other statements – for instance, by expressions of concern about U.S. or NATO military action and fault-finding with U.S. intelligence information. Also, the PRC strongly prefers that such global efforts be conducted through the auspices of the U.N. Security Council, where it has a voice, and not purely through a U.S. unilateral effort or a coalition of U.S. allies. Given past Sino-U.S. difficulties, Beijing may be cautious about appearing too "pro-American," a political problem that working through U.N. auspices could mitigate. PRC officials in the past have attempted to exact policy concessions from the United States – such as on Taiwan or Tibet – in exchange for their support for U.S. initiatives. On December 12, 2001, for instance, a PRC spokesman was quoted as saying that if PRC Uighurs are captured in Afghanistan, they should be returned to the PRC to face charges of terrorism. The United States has indicated in several instances that it will not respond to such attempts for concessions. On December 7, 2001, for instance, General Frank Taylor, the U.S. ambassador-at-large for counter-terrorism, warned that the PRC should not use the anti-terror campaign to persecute Uighur separatists with political grievances against Beijing. (For more information, see the CRS Terrorism Electronic Briefing Book, [<http://www.congress.gov/brbk/html/ebter1.shtml>].)

Other Issues in U.S.-China Relations

U.S. Navy Reconnaissance Plane Collision

On April 12, 2001, the PRC released the 24 American crew members it had held since the mid-air collision of a U.S. Navy EP-3 plane with a Chinese jet fighter on April 1, 2001.

The PRC government decision to release the crew came after U.S. Ambassador Joseph Prueher delivered a letter stating the United States was “very sorry” the U.S. plane entered China’s airspace and made an emergency landing without receiving a verbal clearance. Official Chinese media sources insist that the U.S. plane “rammed” the Chinese jet fighter. The Hainan crisis began on April 1, 2001, when a U.S. Navy EP-3 reconnaissance plane and a PRC F8 jet fighter collided in the air over the South China Sea. The PRC fighter was reported to have crashed, and the damaged U.S. plane made an emergency landing at a military base on the PRC’s Hainan island. U.S. officials said that the EP-3 plane was conducting a routine and solo reconnaissance mission approximately 50-60 miles off the Chinese coast when it was intercepted and followed by two F8 PRC fighters. According to the U.S. account, one of the PRC fighters swooped under the U.S. plane and then collided with it, perhaps as the slower-moving U.S. plane was banking to turn. PRC officials claimed that the plane violated China’s airspace and caused the accident that resulted in the crash of the PRC fighter. They claimed that the plane landed at the Hainan military base without permission.

Many observers believe that the heart of the crisis ultimately concerns the status of the island of Taiwan, which Beijing claims as part of China. One important function of U.S. military reconnaissance flights off southern China is presumed to be monitoring the systematic military build-up the PRC has been conducting on its coast opposite Taiwan. It also may be that the stand-off became caught up somehow in China’s ongoing political succession arrangements, scheduled to occur in late 2002. According to some observers, no PRC official who hopes to benefit in those leadership decisions can be seen to be “soft” in dealing with the United States in such cases. In the wake of the September 11 attacks, both U.S. and PRC officials have said that the EP-3 incident is behind them.

Human Rights Issues

The PRC’s human rights abuses have been among the most visible and constant points of contention in Sino-U.S. relations since the 1989 Tiananmen Square crackdown. According to the latest State Department Report on Human Rights, released in February 2001, the PRC’s human rights record worsened over the previous year, with the government maintaining strict controls over religious organizations, political discourse, and publications. Among the positive developments in the PRC’s human rights record that the 2001 report cites are the “local, competitive elections” permitted widely in the PRC’s rural areas, and ongoing efforts to make political and judicial processes more transparent and hold law enforcement officials more accountable for their actions. (The full text of the report can be found at [<http://www.state.gov/g/drl/rls/hrrpt/2000/eap/index.cfm?docid=684>].)

In addition, the PRC government has signed two key human rights agreements – the U.N. Covenant on Economic, Social and Cultural Rights (October 27, 1997) and the International Covenant on Civil and Political Rights (March 12, 1998) – and announced on February 28, 2001, that it would ratify the former, with qualifications. The U.N. Covenant on Economic, Social, and Cultural Rights, which requires signatory countries to ensure their citizens have access to food, medical care, housing, and education, also requires countries to guarantee workers the right to strike and form labor unions. In ratifying the agreement, China appeared to equivocate on the labor provision, saying it would deal with such issues “in line with relevant provisions” of the Chinese constitution. The only labor union now permitted in China is controlled by the Chinese Communist Party.

Crackdowns Against Religious and Political Activists. In 1999, American news accounts began to give wide coverage to reports that the Chinese government is arresting prominent activists and meting out harsh jail sentences for what most Americans consider to be routine and benign civil acts. In preparation for October 1999 celebrations for the 50th anniversary of the founding of the PRC, the Chinese government showed little tolerance for any dissent or opposition that could have marred the national celebration or cast a shadow on the record of the Chinese Communist Party's rule.

On July 22, 1999, the government outlawed Falun Gong, a spiritual movement in China said to combine Buddhist and Taoist meditation practices with a series of exercises. Chinese officials have accused the group of being a cult, fostering superstitious teachings, and aspiring to overthrow the Communist Party. The November 6, 1999 *People's Daily* suggested that Falun Gong presented the greatest danger to the nation that had ever existed in its 50-year history. Since then, the government has continued to arrest Falun Gong leaders, impose harsh prison sentences, close the sect's facilities, and confiscate and destroy its literature. The PRC has also issued an arrest warrant for the group's leader, Li Hongzhi, thought to be living in New York. The group remains something of a mystery to most observers, and only came to attention on April 25, 1999, when an estimated 10,000 Falun Gong followers surprised central government leaders by surrounding the leadership compound in Beijing to protest their lack of official recognition by the PRC government.

The PRC also cracked down on democracy activists who tried to register a new independent political party, the Chinese Democracy Party. Three promoters of the new party, Xu Wenli, Qin Yongmin, and Wang Youcai, were convicted on subversion charges in December 1998 and given prison sentences ranging from 11 to 13 years. Party Secretary Jiang Zemin stressed the need to maintain social stability in a December 22, 1998 speech, stating that China needed to "nip those factors that undermine social stability in the bud, no matter where they come from."

PRC officials have also ruthlessly suppressed dissent among ethnic minorities, particularly in Tibet and in the Xinjiang-Uighur Autonomous Region, in China's far west, which has a significant ethnic Muslim population. Amnesty International issued a report in April 1999 which accused the Chinese government of "gross violations of human rights" in Xinjiang, including widespread use of torture to extract confessions, lengthy prison sentences, and executions. In August 1999, during the visit of an American congressional staff delegation to Xinjiang, a wealthy and well known Uighur businesswoman, Rebiye Kadeer, was arrested by Chinese security forces on her way to a meeting with a delegation member.

Since September 11, PRC officials have sought to link their ongoing crackdown against Uighur and other Muslim separatists in Xinjiang with the global anti-terrorism campaign. On October 12, 2001, a PRC Foreign Ministry spokesman said, "We hope that our fight against the East Turkistan [Xinjiang] forces will become a part of the international effort against terrorism." According to a December 16, 2001 *New York Times* article, PRC officials in Xinjiang in October of this year held a public rally at a stadium in Hotan to condemn ethnic Uighurs for separatist activities. The article reported that 6 men were given 12-year prison sentences, while one man was condemned to death and later executed. U.S. officials have warned that the anti-terror campaign should not be used to persecute Uighur separatists or other minorities with political grievances against Beijing.

PRC Prisons/Prison Labor. Prisons in the PRC are criticized for their conditions, treatment of prisoners, and stringent work requirements. For U.S. policy, a key issue has been the extent to which products made by prisoners are exported to the U.S. market. Prison labor imports have been a violation of U.S. customs law since 1890 under the McKinley Tariff Act [19 U.S.C., section 1307]; criminal penalties also apply under 18 U.S.C., section 1761 and 1762. Because of concerns about prison labor exports, the United States signed a Memorandum-of-Understanding (MOU) with China on the subject in 1992. Since then, there have been repeated allegations that China is failing to adhere to the agreement. Recent U.S. Congresses have considered legislation to increase funding for monitoring prison labor abuses in China.

Family Planning/Coercive Abortion. Bitter controversies in U.S. family planning assistance have surrounded the PRC's population programs. Abortion, and the degree to which coercive abortions and sterilizations occur in the PRC's family planning programs, has been a prominent issue in these debates. PRC officials have routinely denied that coercion is an authorized part of national family planning programs, but they have acknowledged that some provincial and local officials have pursued coercive policies. Direct U.S. funding for coercive family planning practices is already prohibited in provisions of several U.S. laws, as is indirect U.S. support for coercive family planning, specifically in the PRC. 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. On December 20, 2001, for instance, Congress cleared for the President's signature H.R. 2506, the Foreign Operations, Export Financing, and Related Programs Act, which among other things provides a U.S. contribution to the UNFPA of \$34 million, with the conditions that UNFPA not fund abortions and that it segregate U.S. funds from other UNFPA money so they are not used for the agency's programs in China.

Religious Freedom. Membership data on religious organizations in the PRC suggests that the number of religious adherents continues to grow. Nevertheless, Chinese officials decided in 1994 to tighten restrictions on religious practices, and one result was a marked increase in American criticism. Among other things, new restrictions prohibit evangelical activities and require all religious groups to register with the Religious Affairs Bureau (RAB). Registration requires religious groups to reveal the names and addresses of members, their contacts in China and abroad, and details about leadership activities and finances. The RAB, charged with policing and regulating religious activities, is part of the PRC's State Council and reports to the Communist Party's United Front Work Department. Over the past year, the PRC has further tightened its control over religious practices. Among these measures is the establishment, at the central government level, of an "Office for Preventing and Handling Cults" – a measure targeted primarily at the Falun Gong but which many fear may come to include Christian churches and other more mainstream groups. PRC authorities also are conducting a vigorous campaign against so-called "unofficial" or "house" churches – Christian church groups whose members have refused to register with the RAB. (See CRS Report 97-882, *China's Treatment of Religious Practices*.)

U.N. Resolution on Human Rights. As it has previously, Congress in 2001 passed resolutions calling for U.S. introduction of a resolution at the 2001 annual meeting of the U.N. Commission on Human Rights to condemn China's human rights practices (H.Res. 56 and S.Res. 22, respectively). The United States did sponsor such a resolution, unsuccessfully.

On April 18, 2001, the Commission voted 23-17 (with 12 abstentions and one member absent) in favor of a PRC “no action” motion on the measure. Countries supporting the United States were: Belgium, Canada, Costa Rica, Czech Republic, France, Germany, Guatemala, Italy, Japan, Latvia, Norway, Poland, Portugal, Romania, Spain, and the United Kingdom. Those voting with the PRC were: Algeria, Burundi, Cameroon, Cuba, India, Indonesia, Kenya, Liberia, Libya, Madagascar, Malaysia, Niger, Nigeria, Pakistan, Qatar, Russia, Saudi Arabia, Syria, Thailand, Venezuela, Vietnam, and Zambia.

Congressional-Executive Commission on the PRC. In enacting legislation to give PNTR to the PRC (P.L. 106-286), Congress in 2000 also created the Congressional-Executive Commission on the People’s Republic of China (CECPRC) to monitor human rights in the PRC. The law provides for a body composed of House and Senate Members and presidential appointees, with a chairmanship that rotates between the Senate (odd-numbered Congress) and the House (even-numbered Congress). Senate Members include: Max Baucus (Chair), Carl Levin, Dianne Feinstein, Byron Dorgan, Evan Bayh, Chuck Hagel, Bob Smith, Gordon Smith, Sam Brownback, and Tim Hutchinson. House Members include: Doug Bereuter (Co-chair), Jim Leach, David Dreier, Frank Wolf, Joe Pitts, Sander Levin, Marci Kaptur, Nancy Pelosi, and Jim Davis. Presidential appointees include: Paula Dobriansky (Under Secretary of State for Global Affairs), Lorne Craner (Deputy Assistant Secretary of State for Human Rights and Labor), Jim Kelly (Deputy Assistant Secretary of State for East Asia and the Pacific), Grant Aldonas (Undersecretary of Commerce for International Trade), and D. Cameron Findlay (Deputy Secretary of Labor).

Issues in U.S.-China Security Relations

Once one of the stronger linchpins of the relationship, U.S.-China military relations have never fully recovered after they were suspended following the 1989 Tiananmen Square crackdown. At a Sino-U.S. summit in October 1997, both countries announced they would work to improve military-to-military relations, including an increase in military contacts and a Military Maritime Consultative Agreement (MMCA) meant to reduce the chance of accidents or misunderstandings at sea. What was reported as a “special” meeting of the MMCA was held on September 14-15, 2001, on Guam; the U.S. delegation was led by U.S. Pacific Command representative, Rear Adm. Tom S. Fellin. The Chinese delegation was led by Major Gen. Zhang Bangdong from the PRC’s Ministry of National Defense.

“China’s National Defense 2000” White Paper. On October 16, 2000, China published its third national security white paper, entitled “National Defense in 2000.” According to reports, the document lists China’s national defense expenditures for 2000 at 121.29 billion renminbi – roughly U.S. \$14.65 billion. In describing its view of the current international security situation, the white paper declares that there are “new negative developments in the security situation” in the region. A number of these are attributed to U.S. actions, including a stronger U.S. military presence in the region, continued sale of weapons to Taiwan and consideration of the Taiwan Security Enhancement Act by the 106th Congress, consideration of theater missile defense (TMD) development, and revision of the U.S.-Japan Defense Cooperation Guidelines. In addition, the paper cites the uncertain environment on the Korean Peninsula, the situation in South Asia, and what it calls “encroachments on China’s sovereignty” in the South China Sea.

Non-Proliferation. A key security issue for the United States, now enhanced in light of the September 11 terrorist attacks on American soil, has been the PRC's track record of weapons sales, technology transfers, and nuclear energy assistance, particularly to Iran and Pakistan. Administration officials believe China has taken a number of steps in recent years that suggest it is reassessing its weapons sales and assistance policies. Among other things, the PRC in 1992 promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear Non-Proliferation Treaty (NPT). In 1993, the PRC signed the Chemical Weapons Convention (CWC); in 1996, it signed the Comprehensive Test Ban Treaty; and in 1997, it joined the Zangger Committee of NPT exporters. On January 12, 1998, the President signed the required certifications to implement a nuclear cooperation agreement with China, citing that there had been "clear assurances" from China on nuclear non-proliferation issues. The actual U.S.-China Nuclear Cooperation agreement had been signed in 1985, but no cooperation had occurred under the agreement as of 1997, primarily because of concerns over China's proliferation activities.

Congressional critics, however, have charged that this confidence in China's non-proliferation policies is misplaced. They point out that for years, reputable sources have reported China to be selling technology for weapons of mass destruction and ballistic missiles in the international market, primarily to Pakistan and the Middle East. Although these allegations have always created problems in Sino-U.S. relations, the issue became more serious in light of nuclear weapons tests conducted by Pakistan in May 1998 in response to earlier nuclear weapons tests by India (May 11 and 28, 1998). Critics cite Pakistan's nuclear weapons tests as proof of PRC assistance. Some U.S. observers are concerned about the security of Pakistan's nuclear weapons, afraid that they may be vulnerable to theft or purchase by radical Muslims associated with Osama bin Laden.

Iran also has been a steady customer of Chinese weapons, making such purchases as 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-802's violates the Iran-Iraq Arms Non-Proliferation Act of 1992 (U.S.C. 1701), which requires sanctions on countries that sell destabilizing weapons to Iran or Iraq. In light of the PRC's assistance to Pakistan's acquisition of nuclear weapons, congressional critics question PRC promises to halt nuclear cooperation with Iran.

Satellite Technology Transfer Allegations. Early in 1998, congressional attention also turned to U.S. satellite exports to China. According to a *New York Times* front-page article on April 13, 1998, a classified May 1997 report by the U.S. Department of Defense had concluded that scientists from Hughes and Loral Space and Communications, involved in studying the 1996 crash of a Chinese rocket launching a Loral satellite, had turned over scientific expertise to China that had significantly improved the reliability of China's missile launch abilities. The doomed Loral satellite had been granted an export license as a result of President Clinton's waiver of restrictions in P.L. 101-246 that relate to satellite exports to China. Since these allegations came to light, a special House Select Committee and a number of Senate committees has investigated not only the Administration's decision to grant the satellite export waiver, but the broader range of U.S. technology transfer policy with respect to China, ultimately finding it a flawed policy. An unclassified version of the report was released early in 1999.

Allegations of Espionage. In the late 1990s, U.S. media sources began reporting on investigations into four cases of alleged PRC espionage against the United States dating back to the 1980s. The most serious case involved China's alleged acquisition of significant information about the W-88, the most advanced miniaturized U.S. nuclear warhead, as a result of serious security breaches at the Los Alamos nuclear science lab between 1984 and 1988. In late April 1999, the *New York Times* reported that a Taiwan-born Chinese American scientist, Wen Ho Lee, may have downloaded critical nuclear weapons codes, called "legacy" codes, from a classified computer system at Los Alamos to an unclassified computer system accessible by anyone with the proper password. Lee was fired and indicted on 59 counts of mishandling nuclear data. He pled guilty to one count, and the others were dismissed. On December 12, 2001, a U.S. Justice Department was released alleging that the FBI's investigation of the Lee case was "deeply and fundamentally flawed."

Economic Issues

China is one of the world's fastest growing economies, and trade analysts agree that its potential as a market will increase significantly in the future. Issues involving trade with China have factored heavily into U.S. policy debates. Between 1991 and 1996, U.S. exports to China increased by 90.5%, while U.S. imports from China surged by 171.4%. The U.S. trade deficit with China has surged accordingly, from a \$17.8 billion deficit in 1989 to \$100.1 billion in 2000. (See CRS Issue Brief IB91121, *China-U.S. Trade Issues*.)

Economic issues have been continuing sources of tension in U.S.-China relations. China's past ineffectiveness in protecting U.S. intellectual property, its lack of transparent trade regulations, and its high tariff rates all have contributed to these debates. At the October 1997 summit, Presidents Clinton and Jiang agreed to intensify talks on China's application to join the World Trade Organization (WTO), in which China has sought membership since 1986, when Beijing began negotiating to join the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor. Failure to reach agreement on a WTO accord during Premier Zhu Rongji's visit in April 1999 led many to conclude that the opportunity to resolve trade issues and gain China's admittance to the WTO had passed for the foreseeable future. But on September 17, 2001, WTO members voted to accept the PRC for membership. The PRC formally joined the WTO on December 11, 2001.

Most-Favored-Nation (MFN)/"Normal Trade Relations" (NTR) Status. The annual renewal of the PRC's normal trade relations (NTR) status was a controversial irritant in U.S.-China relations for over a decade. Each year by June 3, the President had to recommend that Congress renew his authority to waive restrictions on the PRC's eligibility to receive , thus effectively extending NTR status to China for another year. Congress could block the renewal by enacting a joint resolution of disapproval within a specified time frame. Joint resolutions of disapproval were introduced for China each year since 1990, including in 2001, although none passed both houses. In fact, most of the debate about China's NTR eligibility since 1990 involved separate legislation which would have placed new conditions on China's NTR eligibility, or legislation addressing a range of contentious issues other than NTR. (The U.S. designation for MFN was changed to "Normal Trade Relations" – or NTR – under P.L. 105-206, enacted in 1998.)

In a move that eliminates the annual process for renewing the PRC's trade status, the 106th Congress enacted H.R. 4444 (P.L. 106-286), a law that granting the PRC permanent

NTR upon its accession to the World Trade Organization. The PRC formally joined the WTO on December 11, 2001, and on January 1, 2002, the PRC formally received permanent normal trade relations status from the United States.

China's Fragile Banking System. In the aftermath of the Asian financial crisis of 1997, with higher interest rates having slowed economic growth in Asia and stock markets in the region having fallen, some economists have become increasingly concerned about the ultimate prospects for China's own fragile banking and financial systems. According to leading authorities on China's economy, official Chinese statistics show that a staggering 22% of the total lending of Chinese banks is judged to be in non-performing loans, primarily loans to insolvent state enterprises. (The actual amount is thought to be much higher.) By comparison, in South Korea, which averted early financial collapse during the Asian financial crisis only with the help of a record \$60 billion international bailout, the percentage of non-performing loans compared to total bank loans was just over 6%.

While China's economic situation has a number of mitigating factors — primarily a high savings rate (42%), lots of foreign direct investment, and insulations against currency speculators — a financial crisis similar to South Korea's in an economy the size of China's could have a significant global impact. In addition, the high percentage of Chinese capital tied up in non-performing loans will make it more difficult for China to make the investments in infrastructure, energy production, and environmental improvements that would contribute to the rate of economic growth China needs in order to keep pace with its demographic requirements.

Sovereignty Issues: Taiwan, Tibet, Hong Kong

Taiwan. Taiwan remains the most sensitive and complex issue in Sino-U.S. relations. Beijing has not foresworn the use of force should Taiwan declare independence from China, and Chinese officials repeatedly block Taiwan's efforts to gain greater international recognition. At the same time, officials in Taiwan are maneuvering for more international stature and for independent access to multilateral institutions. Since 1978, when the United States had to break relations with Taiwan in order to normalize relations with Beijing, U.S. policy toward Taiwan has been shaped by the three U.S.-China communiqués and the Taiwan Relations Act (P.L. 96-8). Periodically, the notion of crafting a fourth communiqué has been put forward — most recently in a January 2, 2002 *Washington Post* op ed piece by Richard Holbrooke, former U.S. Ambassador to the United Nations. The U.S. government has not been receptive to such proposals. (See CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*.)

The "Three Noes". During his summit visit to China in June 1998, President Clinton made a controversial statement about Taiwan that some interpreted as being a change in U.S. policy. In response, both the House and Senate in the 105th Congress passed resolutions (H.Con.Res. 301 and S.Con.Res. 107) reaffirming U.S. policy toward Taiwan. President Clinton's statement was made in response to a question during a roundtable discussion in Shanghai on June 30, 1998. According to a White House transcript, the President said:

I had a chance to reiterate our Taiwan policy, which is that we don't support independence for Taiwan, or two Chinas, or one Taiwan-one China. And we don't believe that Taiwan

should be a member in any organization for which statehood is a requirement. So I think we have a consistent policy.

Taiwan's Presidential Election, 2000. On March 18, 2000, Taiwan voters went to the polls for only the second time to elect a national president. In a stunning upset for the ruling Nationalist Party, voters elected Chen Shui-bian, a member of the Democratic Progressive Party (DPP), a pro-independence party that Beijing finds highly objectionable. Chen has tried to maintain a balance between the more radical, pro-independence advocates in his party while trying to avoid antagonizing Beijing on the cross-strait issue.

Taiwan's December 2001 Legislative Elections. In elections on December 1, 2001, Taiwan's Nationalist Party lost its legislative majority for the first time in 50 years, dropping from 123 seats to 68. This leaves the Democratic Progressive Party with the largest bloc in the legislature, at 87 seats. As a result, current DPP President Chen Shui-bian may gain more legislative support for his policy agenda, which until now has largely been blocked by the Nationalist-controlled body. Since the DPP is associated with views promoting independence from China, the election has implications for U.S.-Taiwan-China relations. (See CRS Report RS21093, *Taiwan's December 2001 Election Results*.)

Taiwan-China Dialogue. Official talks between China and Taiwan, always problematic, last occurred in October 1998, when Koo Chen-fu, Chairman of Taiwan's Straits Exchange Foundation (SEF) and Wang Daohan, president of China's Association for Relations Across the Taiwan Straits (ARATS), held meetings in Shanghai. At that meeting, the two agreed to resume regular discussions and arrange a reciprocal visit to Taiwan by Mr. Wang. Progress toward further talks halted, however, when Taiwan's then-president, Lee Teng-hui, gave a radio interview in July 1999, stating that future cross-strait talks, scheduled to resume in October 1999, should be conducted on a "special state-to-state basis." Beijing protested this statement vehemently as a radical departure from Taiwan's former embrace of a "one China" policy. The pro-independence DPP party, now in power, has backed away from its earlier embrace of independence for Taiwan. For instance, early in January 2001, President Chen announced that he would establish direct links between China and Taiwan's outlying islands of Matsu and Quemoy – a small but significant step in the direction of further contacts. Still, prospects for renewed Taiwan-PRC talks soon appear slight.

Tibet. As a matter of policy, 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. Since normalization of relations with the PRC in 1979, both Republican and Democratic U.S. Administrations have sought to minimize areas of potential tension with Beijing on sensitive topics, such as on the question of Tibet's political status.

But the Dalai Lama, Tibet's exiled spiritual leader, has long had strong supporters in the U.S. Congress, and these Members have continued to pressure the White House to protect Tibetan culture and give Tibet greater status in U.S. law despite Beijing's objections. Because of this congressional pressure, Presidents George Bush (Sr.) Bill Clinton, and George W. Bush each met with the Dalai Lama in the United States — meetings that were deliberately kept low-key and informal, but which nevertheless offended Chinese leaders. Congress in recent years attempted to insert language in Foreign Relations Authorizations bills to create a Special Envoy for Tibet, with ambassadorial rank, to promote good relations between the Dalai Lama and Beijing and to handle negotiations with China on the Dalai

Lama's behalf. U.S. Administration officials opposed the sovereignty implications of a "Special Envoy" provision, and a compromise of sorts was reached on October 31, 1997, when a State Department press statement reported that Secretary of State Albright had designated a Special Coordinator for Tibetan issues within the State Department. The current Special Coordinator is Paula Dobriansky, Under Secretary of State for Global Affairs.

Hong Kong. On July 1, 1997, Hong Kong reverted from British back to Chinese sovereignty in a remarkably smooth transition. The former British colony is now known as the Hong Kong Special Administrative Region (SAR) of the People's Republic of China. On May 24, 1998, elections for the first official LegCo of the SAR were held under agreements adopted on September 28, 1997, by the provisional legislature. Elections for the second LegCo were held on September 10, 2000. When they were put forward, the new election laws were criticized in the United States for being excessively complicated and for dismantling key portions of the electoral reforms put into place in 1995 by Hong Kong's last British Governor, Chris Patten. Still, these election laws, used in both the May 1998 and September 2000 elections, adhered to the major electoral requirements set forward in Sino-British agreements on Hong Kong. For the 2000 elections, this meant that 24 LegCo members were directly elected by popular vote; 30 were elected by select peer groups, or "functional constituencies;" and 6 were chosen by a special Election Committee.

U.S. policy toward Hong Kong is spelled out in the Hong Kong Policy Act (P.L. 102-383), enacted in 1992. Among other things, the Act declares Congress' support for the holding of free and fair elections for Hong Kong's legislature. (See CRS Report RL30895, *Hong Kong's Ongoing Transition: Implications of Chinese Sovereignty in 2001.*)

U.S. Policy Approaches

Since 1989, the U.S. policy community has generally sorted itself out into three basic camps over Sino-U.S. policy. First is a moderate, "engaged," and less confrontational posture toward the PRC. Some proponents of this approach perceive fundamental weaknesses in the PRC, and they urge moderation fearing that to do otherwise could promote divisions in and a possible breakup of the PRC, with potentially disastrous policy consequences for U.S. interests. Others are impressed with China's growing economic and national strength and the opportunities this provides for the United States and for American business. They promote closer U.S. engagement with the PRC as the most appropriate way to guide the newly emerging power into channels of international activity compatible with American interests.

Underlying this approach, for some, is a belief that trends in China are moving inexorably in the "right" direction. That is, the PRC is becoming increasingly interdependent economically with its neighbors and the developed countries of the West and therefore will be increasingly unlikely to take disruptive action that would upset these advantageous international economic relationships. They contrast this behavior favorably with that of disruptive states such as Iraq or Afghanistan – those who are not part of the international system and who may support the kind of global terrorism that struck the United States on September 11, 2001. Some also believe that greater wealth in the PRC will push Chinese society in directions that will develop a materially better-off, more educated, and cosmopolitan populace that will, over time, press its government for greater political

pluralism and democracy. Therefore, according to this view, U.S. policy should seek to work more closely with the PRC in order to encourage these positive long-term trends.

A second approach is more cautious, encouraging U.S. leaders to be less accommodating. Rather than trying to persuade Beijing of the advantages of international cooperation, these critics say, the United States should keep military forces as a counterweight to rising PRC power in Asia; remain firm in dealing with economic, arms proliferation, and other disputes with China; and work closely with traditional U.S. allies and friends in the region to deal with any suspected assertiveness or disruption from Beijing.

Proponents of this policy stress that Beijing officials still view the world as a state-centered, competitive environment where power is respected and interdependence counts for little. PRC leaders are seen as determined to use whatever means is at their disposal to increase their nation's wealth and power. They suggest that PRC leaders may be biding their time and conforming to many international norms as a strategy, until China builds its economic strength and can take more unilateral actions. Once it succeeds with economic modernization, the argument goes, Beijing will be less likely to curb its narrow nationalistic or other ambitions because of international constraints or sensitivities.

A third approach is based on the premise that the political system in the PRC needs to change before the United States has any real hope of reaching a constructive relationship with the PRC. According to these proponents, Beijing's communist leaders are inherently incapable of long-term positive ties with the United States. Rather, Beijing seeks to erode U.S. power and arm U.S. enemies in the region. Despite the statements of support for the U.S. anti-terrorism campaign, according to this view, the PRC's repeated violations of its non-proliferation commitments have actually contributed to strengthening and arming nations that harbor global terrorists. U.S. policy should focus on mechanisms to change the PRC from within while maintaining a vigilant posture to deal with disruptive PRC foreign policy actions in Asian and world affairs.

At the moment, it is unclear what the long-term effect will be on Sino-U.S. relations as a consequence of the September 11 terrorist attacks. Combating global terrorism could serve as a new framework on which to build Sino-U.S. cooperation, filling the void left when the Soviet Union collapsed and strategic cooperation ceased to be a viable basis for the relationship. The devastating possibilities of global terrorism could alter the recent trend in which some policymakers in each country have viewed the other as a principal threat. The benefits of Sino-U.S. cooperation on anti-terrorism initiatives could help mute more hardline, anti-American elements in the PRC, and could change the focus of Congress toward broader anti-terrorism measures and away from measures targeting the PRC. Cooperation on anti-terrorism could also give the United States greater leverage with issues involving the PRC's reported transfer of nuclear, missile, and/or chemical weapons technology to countries thought to support terrorism, like Iraq, North Korea, Libya, and Syria.

Cooperating on an anti-terrorism campaign, however, brings other complications to the relationship, particularly if the PRC links its cooperation with other policy objectives of its own. One problem for U.S. policymakers, for example, is that Beijing commonly makes no distinction between terrorists who perform violent acts and "separatists" – the PRC's term for advocates of Uighur, Tibetan, and Taiwan independence from or greater autonomy within China, even when those advocates are entirely peaceful. PRC efforts to seek tacit U.S.

support for these policies in exchange for anti-terrorism cooperation would exacerbate internal U.S. policy differences on the PRC and complicate U.S. policies toward Taiwan and the Tibetan community-in-exile. Moreover, U.S. resolve to build an international coalition to fight terrorism brings its own complications. The PRC may balk at support for a U.S.-led military action if Japan lends active support, as promised by Prime Minister Junichiro Koizumi on September 19, 2001. U.S. policymakers also face pressure by the PRC and other regional actors who believe that the U.S. decision to build a theater missile defense system (TMD) could be destabilizing to an already uneasy region.

LEGISLATION

P.L. 107-10 (H.R. 428)

Legislation authorizing the President to initiate a plan to endorse and obtain observer status for Taiwan at the annual week-long summit of the World Health Assembly in May 2001 in Geneva, Switzerland. Introduced on February 6, 2001, and referred to the House Committee on International Relations, which marked it up on March 28, 2001. The House passed the bill on April 24, 2001, by a vote of 407-0. The Senate passed the bill by unanimous consent, with an amendment, on May 9, 2001. The House agreed to the Senate amendment on May 15, 2001, by a vote of 415-0, and the measure was cleared for the President's signature. It became P.L. 107-10 on May 28, 2001.

H.R. 1497 (Murtha)

Legislation to revoke the authority established in P.L. 106-286, to extend permanent normal trade relations (PNTR) to the People's Republic of China. Introduced on April 4, 2001, and referred to the House Ways and Means Committee.

H.R. 1779/S. 852 (Lantos/Feinstein)

The Tibetan Policy Act of 2001. Introduced in the Senate and House on May 9, 2001, the bills reaffirm the view that Tibet is an illegally occupied country, establish semi-annual reporting requirements on the status of Chinese negotiations with the Dalai Lama, and establishes certain U.S. policies with respect to international lending to projects in Tibet.

CHRONOLOGY

- 01/01/02** — China received permanent normal trade relations from the United States.
- 12/11/01** — On December 11, 2001, the PRC formally joined the World Trade Organization, thus gaining permanent normal trade relations (PNTR) status from the United States, as enacted in P.L. 106-246.
- 09/11/01** — Terrorists hijacked four U.S. commercial airliners and crashed them into the World Trade Center, the Pentagon, and in rural Pennsylvania. Senior PRC officials expressed their sympathy, condolences, and qualified support.

- 09/05/01** — According to the *Washington Times*, Secretary of Defense Rumsfeld in congressional testimony denied reports alleging that the United States had agreed to China's continued nuclear weapons building.
- 08/23/01** — U.S.-China missile talks began in Beijing on allegations that the PRC had violated its non-proliferation pledges.
- 07/13/01** — The International Olympic Committee announced its decision to permit Beijing, China to host the 2008 Olympic Games.
- 06/04/01** — Defense Secretary Rumsfeld told journalists that the United States was resuming military contacts with the PRC, suspended since the EP-3 incident.
- 04/24/01** — President Bush authorized the sale of defense articles and services to Taiwan, including diesel-powered submarines, anti-submarine aircraft, and destroyers.
- 04/18/01** — The U.N. Commission on Human Rights voted 23-17, (12 abstentions) in favor of a PRC "no action" motion on a U.S. resolution to condemn China's human rights practices.
- 04/12/01** — China released 24 American EP-3 crew members held since April 1, 2001.
- 04/03/01** — Chinese officials charged visiting American University professor Ms. Gao Zhan with espionage, having arrested her on February 11, 2001.
- 04/01/01** — A Chinese F8 fighter collided with a U.S. Navy EP-3 reconnaissance plane over the South China Sea. The U.S. plane made an emergency landing at a Chinese military base in Hainan island.
- 02/28/01** — China ratified, with qualifications, the International Covenant on Economic, Social, and Cultural Rights, a U.N. agreement it signed on October 27, 1997.
- 02/16/01** — U.S. and British warplanes bombed a fiber-optic network in Iraq on February 16, 2001, which reports allege to have been sold and installed by a Chinese firm, the Huawei Technologies Co.
- 01/29/01** — The U.S. Trade and Development Agency (TDA) announced it was reopening its grant assistance program in China, suspended since 1989, based on a presidential "national interest" waiver on January 13, 2001.
- 10/16/00** — China released its "China's National Defense 2000" white paper listing defense expenditures for 2000 at roughly U.S. \$14.65 billion.
- 03/08/00** — The Administration made public an unclassified version of an annual report mandated by P.L. 105-107, on Chinese espionage in the United States.
- 12/16/99** — U.S. and PRC negotiators reached agreement on compensation for damages in the accidental NATO bombing of the PRC Embassy in Belgrade.

- 11/06/99** — U.S. and PRC negotiators announced agreement on terms for China's WTO accession.
- 07/22/99** — China outlawed Falun Gong, a spiritual sect in China whose leader, Li Hongzhi, has lived in New York since he left China in 1998.
- 05/08/99** — NATO forces mistakenly bombed the Chinese Embassy in Belgrade.

FOR ADDITIONAL READING

CRS Issue Briefs and Reports

CRS Issue Brief IB91121. *China-U.S. Trade Issues.*

CRS Issue Brief IB98034. *Taiwan: Recent Developments and U.S. Policy Choices.*

CRS Report RS21093. *Taiwan's December 2001 Election Results.*

CRS Report RL31183. *China's Maritime Territorial Claims: Implications for U.S. Interests.*

CRS Report RL30990. *Political Succession and Leadership Issues in China: Implications for U.S. Policy.*

CRS Terrorism Briefing Book, [<http://www.congress.gov/brbk/html/ebter1.shtml>].