Order Code IB98018

Issue Brief for Congress

China-U.S. Relations

Updated June 28, 2002

Kerry Dumbaugh
Foreign Affairs, Defense, and Trade Division

CONTENTS

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 June 23, 2002, PRC officials reversed their position and allowed 26 North Koreans living in various foreign diplomatic compounds to leave the country for South Korea. Previously, Beijing had demanded that the refugees be handed over to Chinese security forces. The refugees have been seeking asylum from foreign consulates and embassies in China. Chinese security forces have been accused in some cases of forcing their way into the grounds of foreign diplomatic compounds to remove the refugees.

On April 25, 2002, the Los Angeles Times reported that a new CIA assessment reports that the Chinese government in Beijing are actively planning hacking and virus attacks against U.S. computer systems. The allegation was denied by a science and technology official in the Chinese Embassy in Washington.

On April 21, 2002, PRC President Jiang Zemin concluded a five-nation tour of Europe, Africa, and the Middle East, during which he issued a fairly strong denunciation of U.S. policy and the U.S. military presence in Central Asia and the Middle East.

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 and setbacks. Long-standing bilateral difficulties have included U.S. problems with the PRC's worsening human rights record, growing tensions over the PRC's southern military build-up opposite Taiwan and Taiwan's political status, and continued controversy over allegations of Chinese proliferation of weapons to unstable regimes. Punctuating these have been periodic crises, including the PRC's provocative live-fire missile exercises in the Taiwan Strait in 1995-96, allegations of Chinese espionage and leaking of U.S. military secrets in 1997-1998, the accidental NATO bombing of the Chinese Embassy in Belgrade in May 1999, and the collision of a PRC jet fighter with a U.S. navy reconnaissance plane over the South China Sea in 2001. All these problems have occurred against a steady drumbeat of growing mutual suspicion over the perceived security threat that each poses to the other.

The senior Bush Administration spent its four years from 1989 - 1992 trying to protect U.S.-China relations and field a policy of "engagement" with China against mounting congressional opposition in the wake of the 1989 Tiananmen Square crackdown. The Clinton Administration initially adopted a markedly different position, stating that the United States should use its economic leverage to promote democracy and change in the PRC. But like his predecessor, President Clinton also came to favor a policy of "engagement" with China – a policy that Clinton officials came to call a "strategic partnership." The overall "engagement" policies that both the Bush and Clinton Administrations pursued continued to be criticized by a segment of American observers, including Members of Congress, who increasingly have come to see the PRC as America's principal long-term security threat.

Upon assuming office in January 2001, the George W. Bush Administration promised a tougher approach than that of either of his predecessors, 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. The Administration faced an early test of its policy on April 1, 2001, when a Chinese jet-fighter collided with a U.S. Navy EP-3 reconnaissance plane over the South China Sea, forcing the U.S. plane to make an emergency landing at a military base on China's Hainan island. In a tense stand-off, the PRC held the 24-member U.S. crew for eleven days and required the U.S. military to dismantle the EP-3 and ship it back to the United States rather than repair it and fly it back. Official Chinese media sources insist that the U.S. plane "rammed" the Chinese jet fighter and landed at the Hainan military base without permission.

After this rocky start, the September 11, 2001 terrorist attacks against the United States appeared at first to alter the policy calculus for both Washington and Beijing. The Administration of newly elected President George W. Bush appeared to see the potential for Sino-U.S. cooperation against global terrorism as a priority, and U.S. officials down-played other key differences and problems in the relationship evident during much of 2001. U.S. officials 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. But Bush Administration officials also suggested that only limited cooperation would be possible, and in the intervening months since September 11, the President and others in his Administration have continued with a policy approach that appears tougher toward the PRC and less solicitous of Beijing's views.

For its part, Beijing has been pursuing a fairly low-profile approach to recent Bush Administration initiatives. PRC leaders have sought to take advantage of the U.S. anti-terrorism effort to improve Sino-U.S. relations, soften U.S. criticism of its policies, and demonstrate that China can be a responsible global player. But they are also are thought to be wary of the precedents being set by a newly assertive U.S. policy toward Taiwan and an expanded U.S. presence in Central and South Asia. At the moment, Beijing appears largely preoccupied with preparations for the upcoming 16th Party Congress (Fall 2002), during which key leadership changes are expected. It is only after this, some observers believe, that Beijing's views toward the Bush policy may become more apparent.

PRC Response To U.S. Anti-Terrorism Initiatives

Although many speculated at first that the U.S. anti-terrorism effort could provide a new framework for U.S.-China relations, but Bush Administration officials do not appear to be seeking or expecting significant PRC support. 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, the PRC is also an active member in

what is now the Shanghai Cooperative Organization (SCO), a six-member consortium also involving 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.

But the PRC also has sent mixed signals about its support for the anti-terrorism campaign. Strong statements of 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. Also, PRC officials have apparently not been able to exact policy concessions from the United States, such as on Taiwan or Tibet, in exchange for their support for U.S. initiatives – a tactic Beijing has attempted in the past. More recently, in April 2002, PRC President and Party Secretary Jiang Zemin was quoted by Agence France-Presse as using harsher rhetoric about the United States during a trip to Europe, Africa, and the Middle East – saying that "One of the primary issues for China is to protect developing countries from the pretensions of the United States."

Other Issues in U.S.-China Relations

North Korean Refugees

Beginning in March 2002, international attention became focused on North Korean refugees who had been living clandestinely in China. In several well-publicized cases, these refugees had begun rushing into the diplomatic compounds of various foreign governments in China asking for asylum. Chinese security forces were accused in some cases of forcing their way into foreign diplomatic compounds to remove the refugees. On May 8, 2002, for instance, Chinese police entered the compound of the Japanese consulate in Shenyang to remove two North Koreans seeking asylum. On June 13, 2002, South Korean diplomats scuffled with Chinese police as they hauled away a North Korean refugee seeking asylum. After a stand-off of several weeks, during which PRC officials demanded that the refugees be handed over to Chinese security forces, Beijing reversed its decision on June 23, 2002, and allowed 26 North Koreans living in various foreign diplomatic compounds to leave the country for South Korea.

In the past, the PRC largely ignored the large number of North Koreans illegally living in China, cracking down only periodically. But the new activism of the North Korean refugee population involves complexities that concern China, a number of governments, the United Nations, and the international community. The United States and the governments whose diplomatic offices have been involved (Canada, Japan, and South Korea) have protested the Chinese forced intrusions into foreign diplomatic compounds as blatant violations of the Vienna Convention. Chinese officials counter that the North Koreans are not covered under the Vienna Convention because they are fleeing economic hardships and not political repression, that Beijing has long-standing refugee repatriation agreements with North Korea which it must honor, and that Chinese security officials have had permission to enter the foreign government compounds. Moreover, Beijing is nervous that leniency on allowing North Korean refugees to leave for third countries will encourage tens and perhaps

hundreds of thousands of repressed and impoverished North Koreans to flood across the Chinese border hoping to be sent to South Korea or another third country. Officials of South Korea, whose constitution affords South Korean citizenship to all North Koreans, say they cannot hand their own citizens to the Chinese government.

U.S.-China "Summitry"

Despite ongoing tensions, the United States and China have had more senior-level visits and contacts in the Bush Administration than in previous U.S. Administrations. In October 2001, President Bush had his first visit with PRC President Jiang Zemin as part of the Asia-Pacific Economic Cooperation (APEC) Forum ministerial meeting, held in Shanghai. In conjunction with a visit to Japan and South Korea in 2002, President Bush also visited China, stopping in Beijing for February 21-22, 2002. As expected, the 2002 visit resulted in no progress on resolving the "November 2000 agreement," in which the PRC promised the Clinton Administration that it would stop making missile sales to unstable Middle East and South Asia regimes and would institute an export control regime, and the United States promised to lift existing restrictions against certain technology exports. During the visit, the PRC maintained that it is legally obligated to follow through on missile sales agreements that pre-date the November 2000 agreement – the so-called "grand-fathering" issue – and that it is still working on an export control regime. In April-May 2002, PRC Vice-President Hu Jintao, expected to succeed President Jiang Zemin at the 16th Party Congress later in 2002, made his first visit to the United States, meeting with President Bush and with a range of other senior U.S. officials.

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 on March 4, 2002, the PRC's human rights record remained poor in 2001, and that the government continued to maintain strict controls over religious organizations, political discourse, and publications; that law enforcement agencies continued to carry out extrajudicial killings, executions after summary trials, torture and other cruel punishment; and that there continued to be lack of adequate medical care, arbitrary arrest and detention, judicial corruption, denial of fair trial, and other arbitrary official interferences with individual privacy and liberty. The report also cited major flaws and deficiencies in China's Criminal Procedure Law, and stressed that the judiciary is not independent, despite constitutional provisions to the contrary, and that judicial and police corruption is "endemic" in China. In addition, the report indicated that there are ongoing government efforts to correct systemic weaknesses in the legal and judicial systems, that there is growing public debate in China over the inadequacies in the legal system, and that an increasing number of citizens are seeking redress through the courts and making use of the new legal remedies available to them.

Previously, the PRC government 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 Beliefs. In recent years, the PRC has intensified its campaign against independent religious groups that it began in 1999, when American news accounts began to give wide coverage to reports that the government was arresting religious practitioners and giving them harsh jail sentences. 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. 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, and close the sect's facilities. As a consequence of Falun Gong, the National People's Congress on October 30, 1999, adopted a resolution outlawing religious sects and cults in China. The resolution gave no comprehensive definition of a cult or a sect. In an extraordinary display of public dissent, on March 5, 2002, Falun Gong practitioners cut into the cable network in the northeast city of Changchun and broadcast pro-Falun Gong programs until PRC authorities interceded and terminated the broadcasts.

PRC officials have also ruthlessly suppressed dissent among ethnic minorities, particularly in Tibet and in the Xinjiang-Uighur Autonomous Region, 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, Rebiya Kadeer, was arrested by Chinese security forces on her way to a meeting with a delegation member. On February 20, 2002, 84 Members of Congress signed a letter to President Bush urging that he seek Kadeer's release during his official visit in China.

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." 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.

Membership data on religious organizations in the PRC suggests that the number of religious adherents in China continues to grow, despite newly rigorous restrictions on religious practice put into place in 1994. 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. In addition, in recent years, the PRC has established a central government – the "Office for Preventing and Handling Cults." Observers believe this measure is targeted primarily at the Falun Gong but many fear it 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.

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 programs in China.

Labor Unrest. Economic reforms and greater stress on the need to make state-owned enterprises profitable have led to rising labor unrest in China. In 2002, laid-off and unemployed workers estimated to number in the tens of thousands have demonstrated to protest job losses, insufficient severance pay, lack of a social safety net, and local government decisions to shut-down, sell-off, or privatize unprofitable state-owned factories. Worker unrest is a particularly troubling issue for Beijing, a regime founded originally on communist-inspired notions of a workers' paradise. Increasing labor unrest is also likely to place greater pressure on the authority and credibility of the All-China Federation of Trade Unions (ACFTU), China's only legal labor organization, under the leadership of the Chinese Communist Party.

U.S. Commissions on China

In the year 2000, Congress mandated the establishment of two commissions focusing on various aspects of U.S.-China relations:

Congressional-Executive Commission on the PRC. Considered a trade-off for passage of legislation to give PNTR to the PRC (P.L. 106-286), an amendment to the bill

created a permanent body – the Congressional-Executive Commission on the People's Republic of China – to monitor human rights in the PRC. Including both House and Senate Members as well as presidential appointees, the Commission's chairmanship rotates between the Senate (odd-numbered Congress) and the House (even-numbered Congress). Members include (Senate): Max Baucus (Chair), Carl Levin, Dianne Feinstein, Byron Dorgan, Evan Bayh, Chuck Hagel, Bob Smith, Gordon Smith, Sam Brownback, and Tim Hutchinson; and (House): 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). For a variety of reasons, including the September 11 terrorist attacks, this commission got off to a slow start; it did no business in 2001, and is not expected to file its first report until late 2002.

U.S.-China Security Review Commission. Now calling itself simply the U.S.-China Commission, this 12-member body was established in 2000 under the Floyd D. Spence National Defense Authorization Act FY2001 (P.L. 106-398) to review the security implications of U.S. economic and trade ties with the PRC. Commissioners are private citizens appointed by the House and Senate. Beginning in 2002, the Commission is to submit an annual report of its assessment to Congress in both classified and unclassified format.

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.

2002 U.S. National Intelligence Estimate. On January 9, 2002, the CIA issued an unclassified summary of its latest National Intelligence Estimate (NIE), *Foreign Missile Developments and the Ballistic Missile Threat Through 2015*. According to the unclassified report, the PRC is expected to up to 100 long-range nuclear missiles, many on mobile launchers, targeted at the United States by 2015. Currently, the PRC has about 20 fixed silos containing nuclear-armed missiles capable of reaching the United States. The report asserts that the PRC is upgrading its missile forces out of concern that a U.S. missile defense system, if developed and deployed, could effectively neutralize its current nuclear deterrent.

"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.

Weapons 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. Officials in the Clinton Administration believed China had taken a number of steps in the 1990s suggesting it was reassessing its weapons sales and assistance policies. Among other things, the PRC: (1992) promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear Non-Proliferation Treaty (NPT); (1993) signed the Chemical Weapons Convention (CWC); (1996) signed the Comprehensive Test Ban Treaty; and (1997) joined the Zangger Committee of NPT exporters.

Congressional critics, however, charged that confidence in China's non-proliferation policies is misplaced. They pointed 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 and other terrorist groups.

Iran also has purchased PRC weapons, including 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. On January 9, 2002, the Loral Space and Communications Company announced it will pay the U.S. government $14 million in a settlement relating to long-standing allegations it had helped the PRC improve its space program. The incident first came to light in a *New York Times* front-page article on April 13, 1998, alleging that 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. The allegations prompted a special House Select Committee and a number of Senate committees to investigate and find fault with the Administration's decision to grant

the satellite export waiver as well as the broader range of U.S. technology transfer policies with respect to China.

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."

Allegation of Cyber-Attack Plans. According to an April 25, 2002 article in the *Los Angeles Times*, an assessment by the CIA has concluded that the Chinese military is actively pursuing plans to attack and damage U.S. computer systems. According to the newspaper, the CIA report alleges that the "intended goal" of these plans is to inflict broad damage on U.S. and Taiwan computer systems. The *Times* report quotes a U.S. intelligence official as saying that Beijing is "aggressively working on [its] cyber-war capability." A science and technology official in the Chinese Embassy in Washington denied the allegation.

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 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.

"Normal Trade Relations" (NTR)/Most-Favored-Nation (MFN) Status. In a move that eliminated 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. The action eliminates the controversial annual U.S. debate over renewal of the PRC's normal trade relations (NTR), under which the President each year by June 3 had to recommend that Congress renew his authority to waive restrictions on the PRC's eligibility to receive NTR. (The U.S. designation for MFN was changed to "Normal Trade Relations" – or NTR – under P.L. 105-206, enacted in 1998.)

China's Fragile Banking System. The Asian financial crisis of 1997 led some economists to 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 27% of the total lending of China's four principal banks is judged to be in non-performing loans, primarily to insolvent state enterprises, while other financial studies put the amount at closer to 44%. 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.

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 communiques and the Taiwan Relations Act (P.L. 96-8). (See CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*.)

Bush Administration's Policy. Many observers see the current Bush Administration as having abandoned the long-standing U.S. policy of "strategic ambiguity" on Taiwan in favor of policy clarity that places more emphasis on Taiwan's interests and less on PRC concerns. On April 25, 2001, for instance, in an ABC television interview, President Bush responded to a question about the possible U.S. response if Taiwan were attacked by saying that the United States would do"Whatever it took to help Taiwan defend herself." Since the United States has no defense alliance with Taiwan and has never pledged use of American military forces in the island's defense, the President's answer caused considerable controversy over whether the United States had changed its policy toward Taiwan's security or was moving away from its "one-China" statements. Although State Department and White House officials, including President Bush, later insisted that there had been no change in U.S. policy toward Taiwan, saying that the President's April 25 statement was consistent with U.S. commitments in the Taiwan Relations Act, subsequent statements and actions by Bush Administration officials have been judged to be more solicitous and supportive of Taiwan than those of previous U.S. Administrations.

U.S. Visits by Taiwan Officials. In the absence of official U.S. ties with Taiwan, PRC officials argue that no high-level officials of the Taiwan government should be received in the United States. Mindful of PRC sensitivities on this issue, U.S. officials for years remained unwilling to issue visas to senior Taiwan officials for U.S. visits. This changed dramatically on May 22, 1995, when President Clinton, bowing to substantial congressional pressure, decided to allow Taiwan President Lee Teng-hui to make a visit to the United States, but in his capacity as a private citizen, not as an official representing Taiwan. In contrast to previous Administrations, the George W. Bush Administration has been more accommodating in granting limited visits to senior Taiwan officials. In 2001, Taiwan's new President, Chen Shui-bian, was allowed a transit stop in New York City and Houston on his way to Latin America. Taiwan's Vice-President, Annette Lu, was accorded a similar transit stop in New York in early January 2002. More recently, from March 9 -12, 2002, U.S. officials permitted Taiwan's Defense Minister, Tang Yao-ming, to attend a defense conference in Florida. While here, Minister Tang met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly.

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 China's, 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.

Political Developments in Taiwan. Taiwan's political situation is undergoing dramatic changes that could have far-reaching implications for U.S. policy. In elections on December 1, 2001, Taiwan's Nationalist Party (the KMT) lost its legislative majority for the first time in 50 years, dropping from 123 seats to 68. This leaves the largest bloc in the legislature, 87 seats, in the hands of the Democratic Progressive Party (DPP), a pro-independence party that Beijing finds highly objectionable. The December 2001 legislative elections follow Taiwan's landmark presidential election on March 18, 2000, in which 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 DPP-member Chen Shui-bian, giving Taiwan its first DPP executive. Nevertheless, the December legislative elections have not translated into more legislative support for President Chen's policy agenda – until 2001 largely blocked by the Nationalist-controlled body. Instead, non-DPP minority parties have been able to unite in a tenuous coalition that continues to wield substantial influence over Taiwan's political agenda. (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. Cross-strait contacts are also occurring increasingly between mainland and Taiwan business representatives, and in June 2002, three delegations of Taiwan legislators visited Beijing for talks. Still, prospects for renewal of full-fledged Taiwan-PRC talks soon appear slight.

Tibet. 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 who have continued to pressure the White House to protect Tibetan culture and give Tibet greater status in U.S. law. 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 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.

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. 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. The bill was referred to the House Committee on International Relations.

H.R. 1646/S. 1401/S. 1803 (Hyde/Biden/Biden)

The Foreign Relations Authorization Act of FY2002/2003, H.R. 1646, contains a number of China provisions. The more substantive deal with U.S. policy and practices toward Tibet and Taiwan. New Tibet-related provisions also include: opening a U.S. consular office in Lhasa; Tibetan language training for U.S. foreign service officers; expansion of the responsibilities of the Congressional-Executive Commission on the People's Republic of China (CECPRC) to include monitoring and reporting on the status of dialogue between the Chinese government and the Dalai Lama; support in international organizations for economic development on the Tibetan Plateau; $500,000 in each of fiscal years 2002 and 2003 for exchange programs between the United States and the people of Tibet; and $2 million in each of fiscal years 2002 and 2003 for humanitarian assistance to Tibetan refugees. These provisions are similar to provisions in The Tibetan Policy Act of

2001 (H.R. 1779 and S. 852, above.) The bill also contains provisions on Taiwan, including a requirement that the State Department provide quarterly briefings on the status of any U.S.-Taiwan discussions on weapons sales (S. 1401). H.R. 1646 provides that for the purposes of U.S. arms sales, Taiwan should be treated as the equivalent of a major non-NATO ally. It also requires the President to consult with Congress on various sales of defense articles and equipment to Taiwan. The original Senate version, S. 1401, contained substantively similar provisions on China and Tibet as the House-passed bill. On May 1, 2002, the Senate Foreign Relations Committee was discharged from further consideration of the House version, H.R. 1646. The same day, the full Senate took up the bill and, by unanimous consent, passed as an amendment the text of S. 1803, the Security Assistance Act of 2001, which had been introduced by Senator Biden on December 11, 2001, and which the Senate had passed by unanimous consent on December 20, 2001 (S.Rept. 107-122.) The Senate insisted on its amendment and requested a conference.

CHRONOLOGY

06/23/02 — Chinese officials allowed 26 North Korean refugees to leave China and seek asylum in South Korea.

06/13/02 — South Korean officials scuffled with Chinese security forces who were hauling away a North Korean refugee.

05/08/02 — Chinese police entered the compound of the Japanese consulate in Shenyang and forcibly removed North Korean refugees, bringing strong protests from the Japanese government that the action violated the Vienna Convention.

04/30/02 — Vice-Premier Hu Jintao began his first official visit to the United States.

03/08/02 — Falun Gong practitioners cut into the cable TV network in the northeast city of Changchun, enabling them btirgly to broadcast pro-Falun Gong programs.

03/04/02 — The U.S. State Department issued its annual report on human rights violations, saying that China's human rights record "remained poor."

02/21/02 — On February 21-22, 2002, President Bush visited China, Japan, and South Korea. The visit resulted in no new agreements, nor were any anticipated.

01/01/02 — China received permanent normal trade relations from the United States as specified in P.L. 106-246.

12/11/01 — The PRC formally joined the World Trade Organization.

09/11/01 — Senior PRC officials expressed their sympathy, condolences, and qualified support after the September 11 terrorist attacks against the United States.

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 — Beijing won the right 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 for a PRC "no action" motion on a U.S. resolution condemning China's human rights practices.

04/12/01 — China released 24 American EP-3 crew members held since April 1, 2001.

04/01/01 — A PRC F8 fighter collided with a U.S. Navy EP-3 reconnaissance plane over the South China Sea. The EP-3 made an emergency landing on 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.

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.

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.

07/22/99 — China outlawed the Falun Gong spiritual sect in China.

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].