



US-China Relations:

## Leadership Transition Ends, Bilateral Interaction Picks Up

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With Xi Jinping's assumption to the presidency at the National People's Congress in March, China's leadership transition finally ended and high-level US-China contacts and exchanges picked up steam. Senior US officials traveled to China in succession to discuss urgent matters such as North Korea's third nuclear test as well as less pressing, but important questions such as how to define the "new type of major power relationship" between the US and China. Secretary of the Treasury Jacob Lew, Secretary of State John Kerry, Chairman of the Joint Chiefs of Staff Martin Dempsey, and Deputy Secretary of State William Burns consecutively visited Beijing. North Korea's third nuclear test provided an opportunity for the US and China to cooperate more closely. Cybersecurity rose to the top of the bilateral agenda as growing evidence revealed the extent of Chinese state-sponsored hacking into US government agencies and companies.

### **US and China respond to North Korea's third nuclear test**

As North Korea ratcheted up tensions in the first four months of 2013 with provocative actions and bellicose threats, the US and China worked together to devise an effective response. In mid-January, Beijing and Washington struck a deal on a draft UN Security Council resolution condemning North Korea for its December rocket launch, which called for tightening existing UN sanctions and expressed the determination of the UNSC to take "significant action in the event of a further DPRK launch or nuclear test." On Jan. 22, 2013, the UNSC unanimously passed Resolution 2087. As evidence mounted that Pyongyang planned to conduct another nuclear test, US and Chinese officials urged North Korea to desist. China's Foreign Ministry summoned North Korea's Ambassador to China Ji Jae-ryong several times in late January and used other channels to urge North Korea to refrain from going ahead with a third nuclear test.

Pyongyang's decision to explode another nuclear device on Feb. 12 both frustrated and angered China. Beijing had hoped that Kim Jung Un would refrain from provocations and focus on developing the North Korean economy. It also hoped he would be more respectful of Chinese interests and less defiant than his father. China's Foreign Ministry issued an official statement that contained language similar to that used in response to prior tests in October 2006 and May 2009. The statement expressed China's "resolute opposition"; criticized Pyongyang for "ignoring widespread international opposition" to the test; strongly urged the DPRK to "honor its pledge of denuclearization and refrain from taking actions that may worsen the situation"; reiterated China's "consistent position to realize the denuclearization of the Korean Peninsula, prevent nuclear proliferation, and maintain peace and stability in Northeast Asia"; and called on all parties "to exercise restraint and seek peaceful resolution through dialogue." To underscore China's displeasure, Chinese Minister of Foreign Affairs Yang Jiechi summoned North Korean

Ambassador Ji to lodge “solemn representations.” Yang reportedly expressed China’s “strong dissatisfaction” and “resolute opposition” to the test.

Korea was a central topic of discussion between Secretary of State John Kerry and Chinese Foreign Minister Yang Jiechi in phone calls on Feb. 12 and 26. Once again, US-China consultations yielded a UNSC resolution, this time containing new sanctions against North Korea. On March 7, The UNSC unanimously adopted Resolution 2094, which included provisions for the implementation of tighter financial restrictions on North Korea and for a crackdown on its attempts to ship and receive banned cargo in breach of UN sanctions. The resolution also called on member states to deny aircraft permission to take-off, land, or fly over their territory if illicit cargo is suspected to be on board.

China’s willingness to support tougher sanctions raised hopes in the Obama administration for greater US-Chinese cooperation to pressure North Korea to give up its nuclear weapons. Articles by leading Chinese scholars calling for Beijing to revise its policy toward Pyongyang reinforced these hopes. For example, an article published in the Chinese-owned Hong Kong newspaper *Ta Kung Pao* argued that China “cannot be hijacked by the DPRK, or pick up the tab for it; if the DPRK still acts like its old self, China may be forced to get tough, and apart from cooperating with the international community’s multilateral measures, it may reduce aid in bilateral relations.” In an interview with *ABC News* in mid-March, President Obama said it was “promising” that China was changing its thinking. “You’re starting to see them recalculate and say, you know what? This is starting to get out of hand,” Obama said, adding that this would be helpful in forcing a recalculation on the part of the North Koreans.

In a speech delivered at the Asia Society on March 11, National Security Advisor Tom Donilon addressed the issue of US-China cooperation in dealing with North Korea:

... the prospects for a peaceful resolution also will require close US coordination with China’s new government. We believe that no country, including China, should conduct “business as usual” with a North Korea that threatens its neighbors. China’s interest in stability on the Korean Peninsula argues for a clear path to ending North Korea’s nuclear program. We welcome China’s support at the UN Security Council and its continued insistence that North Korea completely, verifiably and irreversibly abandon its WMD and ballistic missile programs.

A few days later President Obama called President Xi Jinping and raised concerns about North Korea among other issues. The White House press release on the phone call noted that “The President highlighted the threat to the United States, its allies, and the region from North Korea’s nuclear and missile programs and stressed the need for close coordination with China to ensure North Korea meets its denuclearization commitments.” Obama reportedly also briefed Xi about US plans to upgrade missile defenses and take other steps to deter North Korean provocations.

Defense Secretary Chuck Hagel subsequently announced that the US would increase the number of interceptors stationed in Alaska following North Korean threats to launch a preemptive nuclear strike on the US. Fearful that the US action would provoke a North Korean reaction that could escalate tensions on the peninsula, China urged restraint. China’s Foreign Ministry

spokesman Hong Lei asserted that “All measures seeking to increase military capacities will only intensify antagonism and will not help to solve the problem.”

Absent a concerted effort by China to enforce the provisions in UNSCR 2094 and all the resolutions preceding it, it is doubtful that they will be effective. Particularly critical is increased Chinese scrutiny of financial transactions with Pyongyang aimed at stopping illicit money flows. This message was conveyed by David Cohen, the US Treasury undersecretary for terrorism and financial intelligence, who visited Beijing in the third week of March. Cohen specifically urged China to follow the US lead and impose sanctions on North Korea’s Foreign Trade Bank, which serves as the main foreign exchange bank for North Korea. This would force the North Koreans to rely on cash, which would inconvenience Pyongyang elites. After his meetings with Chinese officials, Cohen voiced confidence that Chinese banks and Chinese regulators would implement UNSCR 2094. “We’ve heard nothing but the strong intention to implement the Security Council resolution, and we fully expect to work very cooperatively with the Chinese in the robust implementation of that resolution,” he told reporters in Beijing. The US also pressed China to strictly enforce Customs inspections to interdict the flow of banned goods to North Korea. On April 17, the Chinese Transport Ministry sent a memorandum to subsidiary agencies instructing them to strictly implement UNSCR 2094. A similar document was sent to the People’s Bank of China, public security agencies, Customs offices, and border patrol units.

Obama administration officials repeatedly voiced confidence that China was fed up with North Korea’s increasingly bellicose threats and provocative actions. They hoped that Chinese frustration with Pyongyang would cause Beijing to recalibrate its policy in favor of greater cooperation with the US and other nations to pressure North Korea to abandon its nuclear weapons. In an interview in early April with the *New York Times*, Donilon described China’s position as evolving. He also hinted that China’s handling of North Korea was viewed by the Obama administration as a litmus test of its willingness to cooperate with the US on other issues. “The timing of this is important,” Donilon said. “It will be an important early exercise between the United States and China, early in the term of Xi Jinping and early in the second term of President Obama.”

Speaking at CSIS on April 10, Deputy Secretary of Defense Ashton Carter also called for Beijing to use its leverage over Pyongyang. “China has more influence than any other country over North Korea,” Carter said, adding “I wish they would play a larger role in influencing the North Koreans to stop the provocations.” Secretary Kerry echoed that statement in Seoul on the first leg of his three-day trip to the region in mid-April. “China has an enormous ability to help make a difference here,” he told reporters.

In Beijing, Kerry discussed North Korea in most, if not all, of his meetings with Chinese leaders and senior officials. The most in-depth discussion was with State Councilor Yang Jiechi, where in a lengthy statement to the press at the top of the meeting, Kerry said that the US and China had underscored their joint commitment to the denuclearization of the Korean Peninsula in a peaceful manner and would take “actions in order to make good on that goal.” He also sought to breathe life in the virtually defunct Six-Party Talks process. Following Kerry’s remarks, Yang reiterated China’s continuing commitment to “upholding peace and stability and advancing the denuclearization process.” Later, in a separate press availability, Kerry remarked that Yang’s

willingness to send a message to North Korea in a joint statement was “unprecedented.” He also stated that the US and China had agreed to “immediately bear down with further discussion at a very senior level in order to fill out exactly what steps we can take together to make sure that this is not rhetoric, but that it is real policy that is being implemented.”

After Chairman of the Joint Chiefs of Staff Martin Dempsey’s meetings in Beijing toward the end of April, he also voiced optimism that China was urging North Korea to rethink its actions. He told the press “I will leave here with the belief that the Chinese leadership is as concerned as we are with North Korea’s march toward nuclearization and ballistic missile technology, and they have given us an assurance that they are working on it, as we are.”

On the heels of that visit, Chinese Special Representative for Korean Peninsula Affairs Wu Dawei traveled to Washington for an intensive set of discussions on policy toward North Korea. He met all the key US officials in charge of policy toward North Korea, including Special Representative for North Korean Policy Glyn Davies, Special Envoy for the Six-Party Talks Clifford Hart, Special Envoy for North Korean Human Rights Issues Robert King, Coordinator for Sanctions Policy Daniel Fried, Under Secretary of State Wendy Sherman, Acting Assistant Secretary of State for East Asia and Pacific Affairs Joseph Yun, and National Security Staff Senior Director for Asia Danny Russel. The goal, as articulated by the State Department spokesman, was to discuss how to get the North Koreans to come into compliance with their obligations and work toward denuclearization. No announcements were made following the visit and it was uncertain whether the US and China made any headway toward agreement on a joint approach to respond to North Korea’s provocations.

### US Treasury Secretary Lew visits China

US Treasury Secretary Jacob Lew made his first-ever visit to China in March just one week after China completed its leadership transition. Prior to his arrival, a *Xinhua* commentary put the burden of improving bilateral relations on the US, saying that Lew’s main purpose during his visit should be to assure China that the US would resolve its debt problems and rejuvenate its economy.

Underscoring the importance of the US-China relationship, Lew visited as President Obama’s special representative and was the first foreign visitor received by President Xi Jinping. Xi told Lew that he attaches “great importance” to US-China relations and expressed his willingness “to work with the US to jointly advance the cooperative partnership.” Speaking candidly, China’s new leader noted that the two countries have “enormous shared interests,” but also have some differences. Describing the bilateral economic relationship as a “cornerstone” of the bilateral relationship, Xi urged the two countries to view each other’s stage of development in objective terms and to respect each other’s interests for further development.

After his meeting with Xi, Lew had separate discussions with Premier Li Keqiang, Finance Minister Lou Jiwei, Chairman of the National Development and Reform Commission (NDRC) Xu Shaoshi, and People’s Bank of China Governor Zhou Xiaochuan. He also participated in a roundtable discussion with business leaders from US companies operating in China.

China's new leaders shared their plans for carrying out economic reforms with the goals of generating greater domestic demand and promoting continued economic growth. Lew pressed his counterparts to permit the exchange rate of the Renminbi to be market-determined. Concern about the undervaluation of China's currency was also expressed by a bipartisan group of US lawmakers who reintroduced legislation to pressure Beijing to allow the Renminbi to rise further against the dollar. In addition to economic and trade issues, Lew raised Chinese cyber-attacks against US companies, which President Obama had highlighted in his phone call to Xi Jinping the week prior. "It has to be recognized, as the president indicated, this is a very serious threat to our economic interests. There was no mistaking how seriously we take this issue," Lew told reporters. Other matters that Lew discussed included North Korea's nuclear programs, European debt, global governance, and climate change.

### New faces in charge of foreign affairs

On Feb. 1, John Kerry was sworn in as the 68<sup>th</sup> US secretary of state. In his confirmation hearings on Jan. 24, although China was not a major focus of questioning, it was addressed in the context of several issues. For example, Kerry noted that "China is all over Africa . . . buying up long-term contracts on minerals." On issues such as intellectual property, market access, and currency, Kerry said that there were "still significant challenges ahead with China." He mentioned China's cooperation with the US on Iran and called for greater cooperation on North Korea. He described relations with China as "a tough slog," and called for both countries to identify their common interests and goals to promote further cooperation. "It's critical for us to strengthen our relationship with China," Kerry asserted. Commenting on the US rebalance to the Asia-Pacific, he argued that the Chinese are worried that US actions are engendering Chinese concerns of encirclement: "every action has its reaction," Kerry said, adding that the US should be "thoughtful about . . . how we go forward."

In his first three months in office, Secretary Kerry held six phone calls with senior Chinese officials. The first took place on Feb. 5 with then Foreign Minister Yang Jiechi. Yang reportedly maintained that US-China bilateral ties "stood at a critical juncture that linked past and future and were faced with fresh opportunities for further development." He noted Beijing's willingness to promote a "cooperative partnership" with the US and explore ways to foster "a new type of inter-power relations." Kerry expressed Washington's desire to advance exchanges and cooperation with China. Kerry and Yang talked again by phone on Feb. 12 immediately following North Korea's third nuclear test. The third call took place on Feb. 26, and focused primarily on reaching a consensus on a UN response to Pyongyang's nuclear test.

On March 18, after Yang Jiechi's promotion to Chinese state councilor and a few days after President Obama and President Xi held their first phone call, Yang and Kerry again talked by phone. They discussed the bilateral relationship, expressed their hopes for greater cooperation, and agreed to make full preparations for the next round of the US-China Strategic and Economic Dialogue. On March 20, in a phone call to newly appointed Foreign Minister Wang Yi, Kerry said that the US looked forward to strengthening communication with China to build a more positive, constructive relationship. Kerry and Yang talked by phone again on April 4, during which Yang stated that the bilateral relationship is in a new era, "with a very good beginning." The Korean Peninsula and climate change were also discussed.

The following day, Secretary Kerry welcomed China's new Ambassador Cui Tiankai. He told Cui that "President Barack Obama and the US government attach great importance to China-US relations and stand ready to enhance dialogue and cooperation with China in the areas of economy, trade, people-to-people ties, climate change and international and regional hotspot issues, and further advance China-US partnership in the next four years." After Cui received his credentials, he met Deputy Secretary of State Burns and they exchanged views on US-China relations as well as international and regional issues.

On his trip to China in mid-April, Secretary Kerry met China's new leaders and the new foreign policy team, including Xi Jinping, Li Keqiang, Yang Jiechi, and Wang Yi. The meeting with Xi focused on the bilateral relationship. Xi called on the two nations to "blaze a trail for a new type of relations between major powers that features equality, mutual trust, tolerance, mutual learning, cooperation and common prosperity. It wasn't immediately clear whether Kerry presented a US vision for the content of the new type of major power relations that Obama and Xi have agreed to explore. In his press conference, Kerry indicated that the US "wants a strong, normal, but special relationship with China . . . because China is a great power with a great ability to affect events in the world."

Kerry's conversation with Foreign Minister Wang Yi centered on energy and climate change. A decision was made to elevate the existing mechanism on climate and energy to a ministerial level. The Climate Change Working Group under the US-China Strategic and Economic Dialogue will be led by Todd Stern, US special envoy for climate change and Xie Zhenhua, vice chairman of the National Development and Reform Commission. The working group will seek to find ways to advance cooperation on technology, research, conservation, and alternative and renewable energy.

Kerry and Premier Li Keqiang discussed the bilateral economic and trade relationship and agreed to pay greater attention to the problems of US businesses operating in China and Chinese business operating in the United States. Li asked Kerry to "take substantial actions to lift the ban on exportation of high-tech products to China." He also proposed that China and the US "participate in and promote the economic integration process in the Asia-Pacific region with open, transparent and inclusive spirits."

The overall tone of Kerry's visit was decidedly upbeat. Both sides stressed the importance of the bilateral relationship and the need to expand cooperation. On the heels of his departure, Deputy Secretary of State Burns arrived in Beijing for further consultations.

### Cybersecurity leaps to forefront of the bilateral agenda

On Feb. 19, US computer security firm Mandiant released a report that provided strong evidence that Chinese state-sponsored hackers from a PLA unit based in Shanghai had systematically stolen confidential information from over 140 US organizations across 20 industries, including numerous US government agencies and businesses. While Western business and government entities have long suspected Chinese official involvement in hacking attempts, securing reliable evidence has been elusive due to the difficulty of tracing the origin of computer attacks.

Mandiant's report addressed this issue by turning the hackers' own methods against them: the firm back-tracked the hackers' communications to a compromised computer (called a "hop point"), notified the middleman organization of the intrusion and, with their cooperation, was subsequently able to monitor and capture the keystrokes of the hacking unit. The report also provided ample evidence to prove not only that Beijing was aware, but also that such attempts were state-sanctioned.

China's Foreign Ministry spokesman Hong Lei condemned the allegations as "groundless," and "unprofessional," and emphasized that cyber-crime is an international issue that can only be solved by "international cooperation on the basis of mutual trust and respect." He also cited a report by the China National Computer Network Emergency Response Technical Team Coordination Center that found 73,000 IP addresses had been responsible for conducting hacking attacks on 14 million computers in China. On Feb. 28, Chinese Ministry of National Defense spokesman Geng Yansheng claimed that 62.9 percent of the cyber-attacks against China's Defense Ministry and China Military Online websites in 2012 originated in the US.

A day later, the Obama administration released its own report entitled "Administration Strategy on Mitigating the Theft of US Trade Secrets." The proposed strategy adopts a "whole of government approach" in which the administration hopes to coordinate and improve federal efforts to prevent economic and cyber espionage attempts against the US from China and other countries. Actions the administration plans to pursue include increasing diplomatic engagement with countries known for trade secret theft; supporting industry-led efforts to develop best practices; investigating and prosecuting theft by foreign entities; improving law enforcement against theft; and increasing public awareness.

Since the release of Mandiant's report, the issue of cybersecurity has spring boarded to the forefront of the bilateral agenda. National Security Advisor Donilon explicitly singled out China as a threat to US cybersecurity in early March. In a speech delivered at the Asia Society in New York, Donilon said that cybersecurity now occupies a priority position in US policy as more and more businesses are raising concerns about hacking by Chinese entities. To address these concerns, he listed three specific actions that Washington seeks from Beijing: 1) public recognition of the problem's "urgency and scope" and its associated risks, 2) a commitment to take serious steps to investigate and stop activities related to hacking and theft, and 3) bilateral engagement in a "constructive direct dialogue to establish acceptable norms of behavior in cyberspace." A month later, US Under Secretary for Economic Growth, Energy, and the Environment Robert Hormats echoed Donilon's statements in a keynote address at the US-China Internet Industry Forum in Beijing. Hormats maintained that the two sides have a "common interest" in addressing the cybersecurity problem together through direct dialogue and advocated developing "shared understanding" of cyberspace norms and behavior.

While persistently denying US charges, Beijing signaled willingness to engage in dialogue on cybersecurity. As a rejoinder to Donilon's proposal, Beijing said that it favors "constructive dialogue" with the US and other countries about cybersecurity issues. On the sidelines of the National People's Congress (NPC), Chinese officials again rebutted the accusations of state-organized hacking activities against foreign targets. Foreign Minister, soon to be promoted to state councilor, Yang Jiechi said at a press conference that "cyberspace needs rules and

cooperation,” and that China refuses to “turn cyberspace into another battlefield, or capitalize on virtual reality to interfere in other countries’ internal affairs.” Premier Li Keqiang reiterated that China is a “main target” of cyber-attacks and insisted that Beijing is “opposed” to such activities. He called for China and the US to stop making “groundless accusations against each other and spend more time doing practical things that contribute to cybersecurity.”

During his congratulatory phone call to Chinese President Xi Jinping, President Obama raised his concerns about Chinese hacking. Obama emphasized the need to address cybersecurity threats, which he depicted as a “shared challenge” especially in the areas of business and economics. *Xinhua* reports claimed that Xi reiterated prior official statements that cybersecurity issues are becoming “increasingly acute,” that the Chinese side is firmly opposed to such activity, and that Beijing is willing to maintain communication with the US on the matter.

A step toward easing tensions was taken in mid-April during Secretary of State Kerry’s visit to Beijing when the US and China agreed to establish a working group on cybersecurity. The group would operate under the bilateral Strategic Security Dialogue (SSD), which is subsumed under the Strategic and Economic Dialogue. Chinese media reported that during his meeting with Kerry, Foreign Minister Wang Yi called for joint efforts to ensure a safe and open cyberspace and stated that cyberspace should be an opportunity for the two sides to “enhance mutual trust and boost cooperation.”

Later that month, Gen. Martin Dempsey, chairman of the US Joint Chiefs of Staff, met Gen. Fang Fenghui, chief of staff of the People’s Liberation Army (PLA) for the highest level military-to-military talks, during which the two sides discussed cybersecurity among other sensitive security issues. At a press conference following the meeting, Fang denied allegations of state-sanctioned hacking attacks. He took the matter seriously, however, going so far as to compare the damage wrought by such activity to be “as serious as a nuclear bomb.” Fang also urged the two sides to “jointly work on this issue” and acknowledged that he was amenable to establishing a cybersecurity “mechanism to enhance coordination and cooperation.”

Around the same time, Verizon released its annual Data Breach Investigations Report (DBIR), which combines the expertise of Verizon’s own RISK Team and 18 partners, including US and foreign government officials. Of the 120 incidents of government cyber-espionage detailed in the report, 96 percent originated from China (the remaining 4 percent was indeterminate). Wade Baker, the managing principal for Verizon’s RISK Team, acknowledged that while this statistic was “staggering,” it did not necessarily represent a spike in state-sanctioned hacking activity; rather, it reflected the IT industry’s ability to better track such activity.

The convergence between growing evidence of the Chinese military’s involvement in cyber-attack campaigns and greater willingness by US companies to acknowledge compromise and intrusion into their systems has emboldened US officials to take a stronger stance on the matter. On April 22, the *Wall Street Journal* reported that the Obama administration was considering several aggressive options to confront China, including trade sanctions, complaints through the World Trade Organization, diplomatic pressure, prosecutions of individual Chinese hackers in the US court system, and both offensive and defensive countermeasures. It is unlikely such actions would be imminent, however, due to concerns about possible unintended consequences



of such punitive measures. For instance, many intelligence agencies have raised concerns about trying federal court cases against hackers because of potential revelations of the intelligence community's methods in monitoring attacks. Officials also worry that taking economic action against cyber intrusions could instigate a trade war.

### Building a new type of major power relations between militaries

The Obama administration signaled early that strengthening US-China military ties would remain a priority in the president's second term. In National Security Advisor Donilon's March speech to the Asia Society he stated that "a deeper US-China military-to-military dialogue is central to addressing many of the sources of insecurity and potential competition between us." Noting that such a dialogue is "a critical deficiency in our current relationship," he called for "open and reliable channels to address perceptions and tensions about our respective activities in the short-term and about our long-term presence and posture in the Western Pacific."

To reinforce this message, as new officials responsible for military matters assumed their posts in both the US and China, phone calls were arranged by Washington. In March, a phone call took place between Gen. Dempsey, chairman of the US Joint Chiefs of Staff, and Gen. Fang Fenghui, newly appointed chief of the PLA General Staff, a month in advance of Dempsey's trip to China. According to *Xinhua*, Fang told Dempsey that China is willing to work with the US to advance new-type military relations featuring equality, reciprocity, and win-win cooperation and to jointly maintain peace and stability in the Asia-Pacific region. Fang also expressed the willingness of the PLA "to strengthen its communications with the US military to enhance mutual trust, handle differences properly, and deepen cooperation." Apparently, under instruction from Xi Jinping, the PLA is more agreeable than in the past to bolstering defense ties with the US.

In early April, newly appointed US Defense Secretary Chuck Hagel called his counterpart Gen. Chang Wanquan. Both officials stressed the importance of the US-China military relationship and pledged to promote bilateral cooperation. According to Chinese press reports, Chang noted that the two militaries should seek to build "a new type of Sino-US military relationship of equality, mutual benefit, and win-win cooperation." The Pentagon's read-out of the call indicated that Hagel discussed "the importance of focusing on areas of sustained dialogue, practical areas of cooperation, and risk reducing measures." Hagel invited Chang to visit the US later in the year.

The PLA Navy accepted an invitation that was issued last September by then-Defense Secretary Leon Panetta to join the US-organized *RIMPAC 2014* military exercise. In the late 1990s, the PLA Navy was an observer at *RIMPAC*; next year will mark China's first time joining as a participant. In preparation for the drill, which will be held next summer, the US and China will hold several exchanges and exercises in the coming year.

In late April, Gen. Dempsey visited Beijing for four days and met President Xi Jinping, Vice Chairman of the Central Military Commission Fan Changlong, State Councilor and Defense Minister Chang Wanquan, State Councilor Yang Jiechi, and host of the visit Gen. Fang Fenghui. A recurring theme in all of his meetings was that the US and China should establish a new type

of major power relationship between the two militaries within the overall new type of major power relationship that Presidents Obama and Xi aspire to create. Dempsey called for a healthy, reliable, stable and sustained military-to-military relationship. Issues discussed between Fang and Dempsey, according to Chinese media reports, included Taiwan, the Senkaku/Diaoyu Islands, the South China Sea, missile defense, North Korea's nuclear program, and cybersecurity.

After their meeting, Fang and Dempsey met jointly with the press. They announced that the US and Chinese armies will conduct a humanitarian rescue and disaster relief drill with actual force deployments in 2013, building on the table-top exercise that was done in 2012. In addition, another anti-piracy joint drill will be conducted in the Gulf of Aden. While in Beijing, Dempsey visited the Army Aviation Academy, the 4<sup>th</sup> Aviation Regiment, and China's National Defense University. Upon his return, Dempsey provided additional details of his conversations with his military counterparts. According to Dempsey, there was agreement that both sides would recommend to their respective leaders: 1) more frequent and regular engagements at every level, including greater participation in each other's military training exercises as well as the establishment of a video teleconference link to facilitate communications; 2) staff consultations to compare visions; and 3) development of an agreed-upon approach or code of conduct to apply to encounters in the air, sea, and cyber domains.

### **The annual “Two Meetings”**

From March 5-17, the 12<sup>th</sup> National People's Congress (NPC) with its nearly 3,000 delegates convened in Beijing. Concurrently, 2,200 delegates met during the Chinese People's Political Consultative Conference (CPPCC), held March 3-12. The two meetings went largely according to script and drew to a close China's once-a-decade leadership transition that began with the Party Congress last November.

Most of the top appointments were as expected, including Xi Jinping as president, Li Keqiang as premier, Zhang Dejiang as NPC chairman, and Yu Zhengsheng as CPPCC chairman. The announcement of Li Yuanchao as vice president was unanticipated, however, as it broke with recent practice of vice presidents serving as members of the Politburo Standing Committee. Nevertheless, Li is hardly a trailblazer as there have been other such exceptions in the past. Li's appointment has been interpreted by some analysts as an effort to restore some factional balance within China's top leadership, considering his reputed close ties to Hu Jintao. The new selections also included several new vice premiers, state councilors, and ministers. Among those of note for bilateral US-China relations are Yang Jiechi's appointment as state councilor in charge of foreign affairs, and Wang Yi's assignment as minister of foreign affairs, setting China's foreign policy leadership firmly in the hands of experienced diplomats. Other new ministers included Xu Shaoshi at the head of the National Development and Reform Commission (NDRC), Gao Hucheng as minister of commerce, Lou Jiwei at the helm of the Ministry of Finance, and Li Bin as minister for the newly created National Health and Family Commission. Fifteen of the 25 ministers were retained, suggesting that continuity and stability are key features of the new leadership's policies.

Prior to the NPC, speculation mounted that radical government reorganization would take place, including the establishment of new supra-ministries for key issue areas. Actual changes were far less dramatic, however, and what changes did take place reflected public pressure on the leadership for past failures. For instance, the Ministry of Railways, which has been condemned as highly corrupt and inefficient, was abolished and its regulatory functions were split between the Ministry of Transportation and the newly created China Railways Corporation. Other changes suggest the leadership's desire to demonstrate firmer, more efficient handling of social and health concerns. The new General Administration of Food and Drugs siphoned functions from several other regulatory bodies and replaced the State Food and Drug Administration (SFDA). Similarly, the National Health and Family Commission combined the former Ministry of Health and several other bodies. Meanwhile, both the NDRC and the Ministry of Science and Technology (MOST) remain intact, and steps have been taken to create a unified coast guard by consolidating previously separate maritime law enforcement agencies under the State Oceanic Administration (SOA).

At the opening of the NPC, the Chinese Ministry of Finance released the 2013 budget, which reflected considerable continuity with past years' budgets. Most categories of expenditures increased approximately 11 percent with only a few exceptions. Reflective of the leadership's desire to appear responsive to public concerns, spending tied to health care and environmental protection increased by 28 percent and 18.8 percent, respectively. Defense spending increased by 10.7 percent from 669.1 billion yuan to 740.6 billion yuan (about \$119 billion in total).

On March 5, China's out-going premier, Wen Jiabao, delivered his final government work report in which he reiterated several themes from past reports – including Hu Jintao's political work report delivered at the Party Congress last fall. Major economic objectives were outlined, but the road maps for achieving them were left to the new leadership. The goals articulated included expanding domestic consumption; promoting emerging industries; modernizing agriculture, spurring urbanization, and balancing economic development among regions; improving and reforming the social security, healthcare, and household registration systems; ensuring per capita income for rural and urban residents increases with the general rate of economic growth; reforming the financial, income distribution, and interest rate systems; and allowing the RMB exchange rate to be more market-determined.

Several targets set in the report reflected Beijing's desire to balance both public expectations and social stability against uncertainty surrounding China's economic development in the near-future. A modest target for GDP growth of 7.5 percent was set and inflation was pegged to about 3.5 percent, slightly less than the 2012 target of 4 percent. The report projected a 1.2 trillion yuan deficit, which accounts for 2 percent of the country's GDP and is 400 billion more than the previous year. Wen also pledged that the government would add more than 9 million urban jobs, keep registered urban unemployment rate at or below 4.6 percent, and work to ensure that real per capita income for both urban and rural residents increased in step with national economic growth. Wen said China would implement a "proactive fiscal policy" whereby social spending in the areas of education, health and social security would be given priority.

On the final day of the NPC, Xi Jinping and Li Keqiang delivered their first remarks as newly elected president and premier. Taken together, their statements provided only glimpses of the

new leadership's priorities and policy directions. Xi's speech was most notable for his attempt to promote national unity by promoting his concept of the "Chinese Dream." He called for citizens to "strive to achieve the Chinese dream of great rejuvenation of the Chinese nation" by pressing forward with "indomitable will . . . the great cause of socialism with Chinese characteristics."

During his first press conference on March 17, Premier Li alluded to reformist social and economic policies the new leadership plans to pursue. Li explained that reform was China's "biggest dividend" and emphasized that to sustain fast-paced economic development the country would have "no alternative" but to pursue comprehensive reforms. Li noted the need to "curb" the government's power; to establish an "anti-corruption mechanism" and create a "transparent environment" to fight corruption; and to lead by example – reducing administrative and hospitality spending while simultaneously increasing social spending that benefited the public. In addition, Li stressed the importance of improving quality of life for China's middle- and low-income households. With regard to financial reforms, Li reiterated Beijing's plans to pursue market-oriented reforms in setting interest rates and the yuan's exchange rate, increase the share of direct financing, and develop a "multi-tier capital market." Li stated that China's "trade will continue to grow and even at a high speed in the years ahead," and these reforms would help promote a new phase of economic growth and opportunity.

#### Looking ahead

As President Obama begins his second term and Xi Jinping starts what is likely to be a decade ruling China, both leaders are keenly aware of the areas of tension in the US-China relationship as well as the potential and need for greater cooperation. Domestic challenges are a top priority for both presidents, which will likely compel them to ensure that bilateral ties remain stable.

The fast tempo of US-China exchanges is likely to continue in the coming months. National Security Advisor Donilon will visit Beijing in May. Foreign Minister Wang Yi will travel to Washington for consultations in advance of the Strategic and Economic Dialogue, which is scheduled for the week of July 8. More high-level military exchanges are on the agenda, including a visit to the US by PLA Navy chief Wu Shengli and Defense Minister Chang Wanquan. President Xi and President Obama are not expected to meet until September, when they will engage on the margins of the G20.

### Chronology of US-China Relations\*

January – April 2013

Jan. 18, 2013: US Department of Commerce announces it is launching a countervailing duties investigation on frozen warm water shrimp from China and six other countries.

Jan. 24, 2013: Secretary of State Hillary Clinton announces the creation of the 100,000 Strong Foundation to expand opportunities for US students to learn Chinese and study in China.

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\* Chronology and research assistance by CSIS intern Sheridan Hyland

Jan. 25, 2013: China imposes 5-year anti-dumping duties on US and EU companies exporting glycol and diethylene glycol to China, arguing the products are harming the Chinese economy.

Jan. 25, 2013: Bipartisan legislation in US Congress introduces the Taiwan Policy Act 2013, which calls for deeper diplomatic relations with Taiwan and allowing Taiwanese leaders to meet US officials from all executive government branches.

Jan. 25, 2013: US Special Representative for North Korea Policy Glyn Davies visits Beijing to discuss North Korea on a trip that includes Japan and the Republic of Korea

Jan. 26, 2013: State Councilor Dai Bingguo and Secretary of State Clinton talk on the phone to discuss how the US and China should work to further fulfill their leaders' consensus and steer bilateral relations back to a more cooperative direction.

Jan. 31, 2013: Vice Premier Li Keqiang of the State Council meets a delegation led by Rep. Ed Royce, chairman of the US House Committee on Foreign Affairs.

Feb. 3-6, 2013: Thomas Countryman, assistant secretary of state for international security and nonproliferation, meets senior Chinese officials in Beijing to discuss bilateral cooperation on nonproliferation issues.

Feb. 5, 2013: Foreign Minister Yang Jiechi talks by phone with newly confirmed Secretary of State John Kerry.

Feb. 8, 2013: US International Trade Commission announces the antidumping order on imports of steam-activated carbon imported from China will remain in effect for at least five years.

Feb. 12, 2013: Foreign Minister Yang and Secretary of State Kerry hold a phone discussion regarding North Korea's nuclear test.

Feb. 19, 2013: US computer security firm Mandiant releases a report stating Chinese state-sponsored hackers associated with PLA Unit 61398 have accessed information from numerous US government agencies and businesses.

Feb. 20, 2013: Obama administration releases its "Administration Strategy on Mitigating the Theft of US Trade Secrets" in response to economic and cyber espionage attempts against the US from China and other countries.

Feb. 25, 2013: National Security Advisor Tom Donilon meets State Councilor Liu Yandong on the margins of the inauguration ceremonies for President Park in Seoul.

Feb. 27, 2013: Foreign Minister Yang and Secretary of State Kerry talk by phone to exchange views on US-China relations and the situation on the Korean Peninsula.

March 4, 2013: National People's Congress (NPC) opens and China's Ministry of Finance announces that the country will boost defense spending 10.7 percent to \$119 billion.

March 7, 2013: United Nations Security Council passes Resolution 2094, which includes a new round of sanctions against North Korea to impede development of nuclear and missile programs.

March 11, 2013: National Security Advisor Donilon calls on China to recognize the seriousness of cyber-espionage in a speech at the Asia Society in New York.

March 12, 2013: Gen. Fang Fenghui, chief of the General Staff, talks with Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey to discuss strengthening military communications, enhancing mutual trust, handling differences properly, and deepening cooperation.

March 14, 2013: President Obama calls President Xi Jinping to congratulate him on his new position and discuss the US-China relationship.

March 18, 2013: State Councilor Yang Jiechi talks by phone with Secretary of State Kerry.

March 18-22, 2013: Under Secretary for Terrorism and Financial Intelligence David Cohen visits China to discuss implementation of economic sanctions against North Korea.

March 19-20, 2013: Treasury Secretary Jacob Lew visits China and meets President Xi, Premier Li Keqiang, Finance Minister Lou Jiwei, and People's Bank of China Gov. Zhou Xiaochuan.

March 20, 2013: Foreign Minister Wang Yi and Secretary of State Kerry talks by phone to discuss bilateral ties as well as Korea, climate change, and cybersecurity.

March 24, 2013: Acting Assistant Secretary of State for East Asian and Pacific Affairs Joseph Yun meets senior government officials in Beijing.

March 27, 2013: Delegation from the Senate Committee on Foreign Relations, headed by Sen. Bob Corker visits China and meets Wang Chen, vice chairman and secretary general of the Standing Committee of the NPC and Qi Jianguo, deputy chief of staff of the PLA.

March 27, 2013: US House of Representatives passes a spending bill that bars US government purchases of information technology systems that are "produced, manufactured, or assembled by one or more entities that are owned, directed, or subsidized by the People's Republic of China."

April 1, 2013: US Trade Representative releases its "National Trade Estimate" Report, stating that China impedes imports from US producers of steel, autos, beef, and copyrighted products.

April 3, 2013: Secretary of Defense Chuck Hagel and Minister of National Defense Gen. Chang Wanquan talk by telephone.

April 4, 2013: State Councilor Yang Jiechi and Secretary of State Kerry talk by phone on strengthening and enhancing bilateral relations.

April 8-9, 2013: US Department of State and Chinese Ministry of Foreign affairs co-lead the fourth US-China Dialogue on the Law of the Sea and Polar Issues in Alameda, California, hosted by the US Coast Guard.

April 9, 2013: Robert Hormats, undersecretary for economic growth, energy, and the environment, delivers the keynote address at the US-China Internet Industry Forum in Beijing.

April 13-14, 2013: John Kerry makes his first visit to Beijing as secretary of state.

April 15, 2013: President Xi Jinping meets the second US-China Governors' forum attendees and calls on governors of both countries to promote bilateral relations.

April 15, 2013: Chinese Ambassador to the US Cui Tiankai presents his credentials to President Obama at the White House.

April 19, 2013: US releases its annual *Country Reports on Human Rights Practices for 2012* in which it denounces China's human rights abuses.

April 21, 2013: China releases its report *The Human Rights Record of the United States in 2012*, criticizing US abuses of human rights around the world.

April 21-25, 2013: Wu Dawei, China's special representative for Korean Peninsula affairs, visits the US to exchange views on the current situation in Korea.

April 21-25, 2013: Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey, travels to Beijing to discuss bilateral military relations with Chinese officials.

April 22-25, 2013: Ambassador at Large for International Religious Freedom Suzan Johnson Cook and Deputy Assistant Secretary for Democracy, Human Rights, and Labor Daniel Baer travel to China to promote human rights and religious freedom.

April 24-25, 2013: Deputy Secretary of State William Burns visits Beijing and meets Vice President Li Yuanchao and other senior Chinese officials.

April 25, 2013: US-China Economic and Security Review Commission holds a hearing on "China's Agricultural Policy and US Access to China's Market."

April 25, 2013: Acting Assistant Secretary for East Asian and Pacific Affairs Joseph Yun testifies to the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific on "Security and Defense: Cooperation and Challenges."